

CHECK AGAINST DELIVERY

Getting It Right!

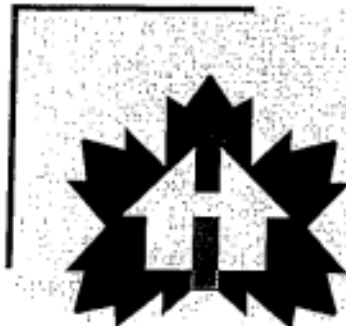
INAUGURAL ADDRESS

Vince Laberge, Incoming President

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Minister Ashfield, distinguished guests, ladies and gentlemen, friends and colleagues – it is a great honour to be speaking here today, as the next President of our Association.

I've been part of housing all my life – I live it and breathe it. I've never done anything else.

Homebuilding is a 'belly-to-belly' business – you have to be directly involved with your customers, with your trades, with your suppliers – with everyone who works with and for you. It's all about people staying connected and building effective teams.

Minister Ashfield, it is in this spirit that I welcome you here today, representing your colleague Minister Finley and the federal government.

Minister Finley has demonstrated, time and again, her readiness to go 'belly-to-belly' with us on important issues.

We respect her for that. We very much appreciate her willingness to act as the federal government's 'eyes and ears' when it comes to our industry.

I would ask that you pass on our best wishes to Minister Finley, and our appreciation for her commitment to working with our industry.

Victor, I want to express our gratitude for the strong and progressive leadership you have provided over the last year, as our National President.

For builders, the challenge is always there – to find better approaches, more efficient ways to get things done, and more effective ways to deliver what our customers want.

You have encouraged us to keep challenging ourselves.

- To set the bar higher.
- To find new and better ways to get the job done.
- To understand that a home is the expression of human challenge and endeavour.

You have been an outstanding CHBA President, and I know I speak for everyone here today when I say 'thank you' for a job well done.

For me, meeting the challenges of change is what being an entrepreneur is all about. It's the gas in the tank, the fire in the belly.

My remarks this morning are a call for change – change that is necessary to address today's economic realities, and to create the conditions for our industry to operate to its full potential.

The success of our efforts will be measured:

- by improved housing choice and affordability,
- by well-built homes that meet the needs of our customers,
- by communities that are inclusive and environmentally sensitive, and

- by good, well-paying jobs in a strong and growing residential construction industry.

The future demands that our economy becomes more productive, more innovative and, as a result, more competitive.

We hear this 'call to arms' regularly from leading economists, from the Governor of the Bank of Canada, and from many others.

Meeting this challenge will determine Canada's future prosperity and the quality of life we all share.

Our industry is ready to take on this challenge. We're more than ready. In fact, we're impatient to get on with the job.

Let me begin by looking at the economic importance of our industry and the lessons we can draw from the experience of the last two years.

We often refer to our industry as an 'economic powerhouse'. Our contributions are immense.

CMHC's current forecast range for new housing starts this year is between 157,300 to 192,900.

This range represents a difference of 71,000 jobs and almost \$12 billion in economic activity.

So, there is a lot at stake and we need to get this right.

Minister, the future is not pre-ordained.

The choices made by our industry, and by governments, will determine where we end up, and how many jobs are created, or lost, this year.

These choices will significantly impact Canada's economic performance in 2011, and beyond.

This is a particularly telling time for our industry.

I could not have imagined, a short time ago, that the fiscal problems of Greece, Ireland, or the flawed mortgage lending practices in the U.S. could have had such a profound impact on my business in Edmonton.

Today, I know differently.

Around the world, many economies remain in a precarious state. This will continue to affect us here in Canada. We're not 'out of the glue' yet.

So what have we learned from this?

- First, the actions required to avoid economic disaster are not the solution for our ongoing challenges. The measures governments have taken to keep our economy from going over the cliff are simply not sustainable. And we know that neither our economy nor our industry can regain health through artificial government stimulus.

- Second, we can not go back to the way things were, when it was assumed that ever-increasing real estate values would cover up imprudent social and fiscal policies.

The last two years have also reinforced the importance of housing. Our industry plays a crucial role in the health of our economy.

Government measures to deal with the financial crisis recognized this – it was a prime focus of Canada's Economic Action Plan.

When Canada was faced with an international financial crisis and the resulting recession, the federal government looked to our industry as one of the most effective 'levers' to keep our economy on the tracks.

In many ways, the Economic Action Plan was a housing stimulus plan. CMHC's actions to stabilize the mortgage market, the Home Renovation Tax Credit, the additional funding for ecoENERGY Retrofit grants, and the residential focus on federal infrastructure financing – these were major elements of the strategy to support Canada's economy.

Those actions were buttressed by monetary policy reflected in historically low interest rates.

Today, the greatest mistake we can make is to assume that the conditions are in place to support healthy housing activity on a self-sustaining basis.

They are not.

No government in this country should presume that the potential for strong housing demand will magically translate into strong housing activity.

For well over a year, our recovery has been dependent, almost entirely, on extremely low interest rates. This has obscured continued increases in the cost of building a new home.

Make no mistake, homes are not more affordable – they are just cheaper to finance. The actual cost of delivering a new home has not come down – it is quite the opposite.

And governments are responsible for a significant portion of these increased costs.

The level of public discussion on this issue has been singularly unimpressive – and that must change.

Recent actions by the federal government give me some hope that this will happen.

In setting out new mortgage rules last month, the Minister of Finance took direct aim at government policies that encouraged people to get over their heads in debt, or buy homes that they cannot afford.

In removing mortgage insurance from certain home equity lines of credit, and limiting the amount that can be borrowed, the Minister acted prudently, and with foresight.

Simply put, Minister Flaherty saw a problem developing, and he took pre-emptive action before things got out of hand.

That is precisely the approach we need from governments in relation to their own role in inflating housing costs, and the resulting increase in household debt.

While some homeowners have been using their homes as an ATM machine, many governments have been doing exactly the same thing.

In far too many cases, new homes are being used by governments as the vehicle to transfer social costs into private mortgages, inflating the level of household debt and creating significant economic risks, going forward.

In principle, there is no difference between policies that lead consumers, or governments, to use new homes as a ready source of cash:

- Both threaten access to homeownership.
- Both threaten the financial well-being of homeowners.
- And, both threaten housing markets and our economy.

The Minister of Finance has addressed the consumer side of this problem through his recent actions. It is now time that governments, at all levels, deal with their role in driving up housing-related debt.

Homebuyers and homeowners cannot continue to be used as 'cash cows'.

To put it bluntly, low interest rates have masked the increasing burden of government-imposed costs on the price of a new home. They have obscured the real and significant impact these costs have on housing affordability and choice.

The bottom-line is clear – tighter mortgage rules must be accompanied by a reduction in government-imposed costs on housing consumers.

This is vital for housing affordability – and housing affordability is the key to achieving housing starts in the upper end of CMHC's forecast range.

Like builders across our country, I admit to frustration about having to do business in an environment where:

- Government imposed costs appear to have no limit.
- Every new regulation is portrayed as progress, with little or no thought given for the costs or unintended consequences.
- The policies that affect our industry within and among levels of government work at cross-purposes, and silo-thinking persists.
- And finally, the resulting problems are expected to be solved by our industry and paid for by our customers through lost affordability and choice – and bigger mortgages.

This is not an environment that instills business confidence, encourages investment in productivity, or inspires innovative developments and products.

Over the next year, I will be guided by one central question as we address tax and regulatory issues – what is the 'business case'?

It is essential that governments, at all levels, develop public policy based on 'business case' analysis.

By 'business case' I mean an approach:

- that supports evidence-informed analysis,
- that considers all reasonable alternatives and treats regulation as the last resort,
- that involves all interested parties in open, transparent and constructive dialogue, and
- that results in specific, well-defined goals and intended outcomes.

In calling for this approach by governments, there are three overarching issues I want to focus on.

- The first issue, which I have already mentioned, is the direct and indirect government imposition of costs on new home buyers and those renovating homes.
- The second issue I'll call 'Red Tape'. This involves inefficiency in how governments regulate development, resulting in unnecessary costs.
- The third issue is the need for ongoing government investment in critical areas that support competitive and innovative housing markets.

So let me address the first issue – direct and indirect government imposed costs, in more detail.

Today, this problem has two key elements:

The first, and most obvious, is the high level of direct taxes, fees, charges and levies imposed on new homes and their purchasers by governments.

- The updated report on Government Imposed Costs on New Housing, released in late 2010 by CMHC, lays out a clear picture. The total government imposed costs on a modestly priced new home in Canada is 13.4% of the selling price. In some municipalities, these costs are well over \$100,000 per home. And they continue to increase, with no end in sight.
- At the extreme, we have governments enacting charges and fees at a higher rate than those imposed through so-called 'sin taxes' on alcohol and tobacco.

The second, and less obvious problem is the growing array of indirect costs imposed through regulations, conditions and requirements.

- Minister, it is truly amazing how ingenious governments can be in transferring costs to new home buyers and existing home owners wanting to renovate. Every device imaginable is used, from hijacking Building Codes, to manipulating planning and approval processes.

Whether such costs are imposed directly or indirectly, it is a financial 'shell-game' where governments simply move public expenses 'off the books' by shifting them onto consumers who purchase a new home.

Let me be very clear – it is outrageous to force new home buyers to pay for social policies that should be paid by society as a whole.

This misguided practice allows governments, particularly at the municipal level, to avoid dealing with the true cost of running our communities and the financial discipline required to meet these costs in a prudent manner.

In examining these costs, I will begin with the federal government.

Minister, it will come as no surprise that the impact of the GST on housing affordability and choice remains a priority issue with our industry.

The GST treatment of new homes, and home renovations must be addressed.

- The GST new home buyer rebate threshold must be increased to reflect the federal government's commitment that housing affordability should not be adversely affected by this tax. Since 1991, the threshold has never been adjusted, despite government assurances that this would happen.
- A 2.5% Home Renovation Tax Rebate must be introduced to restore tax fairness for Canadians who maintain or improve their homes.

Both of these measures are needed to 'put things right'.

Simply put, both the GST and the various provincial HST regimes across Canada were claimed to be 'tax neutral' by policy-makers. For the vast majority of new home buyers, and for those doing home renovations, this is simply not true.

We are still waiting for the federal government to fulfill its commitment.

At the same time, other levels of government must also address the excessive costs they impose on housing.

In terms of municipally-imposed costs, the picture is very clear. From 1995 to 2007, a period of stronger housing markets, municipal reliance on development charges for basic urban infrastructure increased dramatically – virtually doubling.

There are responsible and prudent alternatives.

For example, municipalities should be making better and more extensive use of debt financing when investing in community services, including basic infrastructure.

The prudent use of public debt shifts the burden of these costs across the whole community and across the generations that will benefit from it.

Minister, our recommendation is that the federal and provincial governments take action to expand municipal use of pooled debenture financing tools.

And, we are recommending that the government continue the Municipal Infrastructure Lending Program through Canada Mortgage and Housing Corporation. Born out of crisis, this sensible initiative should remain in place.

Encouraging municipalities to take advantage of loans at reasonable rates of interest makes a whole lot more sense than to off-load public debt onto the household mortgage market, through new home buyers.

In addition to direct government imposed costs on new homebuyers, our industry is seeing the growing use of regulations and other requirements that force new development to provide what are general social benefits.

A clear example of this are proposals for inclusionary zoning in some jurisdictions.

Inclusionary zoning amounts to a tax-shifting device that forces a small number of new homebuyers to subsidize the provision of lower-cost housing for others.

This creates the illusion that government is fulfilling a social obligation at no one's cost.

As we have learned from the U.S. experience, 'off-loading' of social policy costs was a prime cause of the financial crisis, which vapourized the wealth of a huge number of American homeowners.

Such practices are irresponsible, they further undermine housing affordability, and they are ineffective.

When it comes to meeting society's responsibilities, there is no 'free lunch'.

Fortunately, we are seeing that governments can act with wisdom in this area, and this is very encouraging.

Late last year, after hearing from the Ontario Home Builders' Association concerning alternative policies to encourage low-cost housing options, the Government of Ontario chose not to provide municipalities with the authority to implement inclusionary zoning. Instead, it adopted policy to allow secondary suites in both new and existing housing.

This is a sensible, and far more effective way, to address the need for more lower-cost rental accommodation. It is an excellent example of 'business case' analysis leading to smart regulation.

Minister, the increasing direct and indirect costs imposed by other levels of government on housing does involve the federal government – and very directly.

Every time provincial or municipal governments increase these costs, the federal government becomes the beneficiary of additional GST revenue, at the expense of new home buyers and those wanting to renovate their homes.

The tax-on-tax nature of the GST adds to the overall tax burden and further erodes housing affordability. The Harmonized Sales Tax compounds this burden.

In short, the federal government is very much a party to a tax system which effectively transfers public-sector debt into household mortgages.

For new home buyers, this amounts to a 'double-whammy': the negative impacts of lack of GST rebate indexation are magnified by the effects of taxes being charged on taxes.

Minister, we are asking the federal government to address this issue as a matter of urgency, and with the same degree of vigour it has addressed mortgage rules.

Beyond the issue of imposed costs and the financial 'shell-game' surrounding these costs, ineffective and inefficient regulation of new development also impacts both housing affordability and choice.

Simply put, the entire development approvals process, from initial planning through to actual construction, takes much longer than it should. This adds to the cost of every new home, while achieving nothing of value.

Because each new home ties up more capital for a longer period of time, we can build fewer homes, and our ability to be more productive and innovative is severely compromised.

As our capital utilization becomes less efficient, jobs are lost in our industry, and in those industries and services that supply us.

Beyond this, we all lose economic growth in our communities, and in our country.

Last year, British Columbia's Housing Minister, Rich Colman, pointed out that, *"too many rules, delays at City Hall and restrictive zoning can add as much as \$100,000 per unit to the cost of a development"*.

He went on to add that *"every dime we put on someone's shoulders is a piece of a mortgage that they are carrying, that they have to pay, and it means that something else in the household goes away"*.

We must get on with the job of eliminating the 'red tape' that undermines our capacity to operate effectively, and inhibits finding new and better ways to deliver value to our customers.

We need governments, at all levels, to engage this challenge.

Minister, we welcome the formation of the government's Red Tape Reduction Commission.

We were heartened to hear the Prime Minister, in announcing the Commission, describe unnecessary red tape as *"a hidden tax and a silent killer of jobs"*. He went on to say that *"sometimes we believe that the best thing that government can do is simply get out of the way"*.

We could not agree more.

The CHBA is calling on the federal government to go further and build on this important initiative.

Housing is impacted by regulations at all three levels of government. To get effective regulatory reform, we need governments working together and focused on the full regulatory challenge facing our industry. Federal leadership can help make this happen.

Minister, today I'm reiterating the CHBA's call for a meaningful, action-oriented intergovernmental forum to address the issue of regulatory reform in relation to our industry.

This forum should be tasked with examining the totality of regulatory impacts on our industry, and seeking common reform strategies that will effectively cut unnecessary and counter-productive 'red tape'.

Minister Ashfield, earlier this month, I was pleased to see the Prime Minister point to the pressing need for such an approach in relation to our trading relationship with the U.S.

Following his meeting with President Obama, the Prime Minister reiterated the federal government's commitment to evidence-based, predictable, cost-effective regulatory approaches that are carefully targeted to enable businesses to continue to innovate and grow.

Our nation is able to undertake such regulatory reform action with another country – we can do the same domestically, between levels of government.

Minister, the third issue I want to highlight is the continued importance of targeted federal government investments in a number of key areas.

The federal government has the capacity to do this through:

- Canada Mortgage and Housing Corporation
- Natural Resources Canada, and
- the Institute for Research in Construction

So, let me outline the areas where federal investment is critical.

The first area is continued strategic investment in municipal infrastructure by the federal government, particularly basic infrastructure.

The second area where federal investment is crucial is the pursuit of financial innovation. New development approaches, and new technologies, require new financing tools that support broader sharing of risks and benefits, particularly for housing consumers.

The third area relates to knowledge and information transfer. This includes both market and technical research, and extends to identification of best practices, and to demonstration projects.

Let me expand on this.

- The homes and communities we build today should anticipate the housing needs of the future. For example, with an aging population, there is an obvious need to consider the type of homes we build, their accessibility, and their connection to community services. Insightful

market research is essential both for evidence-informed public policy development, and business decision-making.

- New home builders, renovators and governments need best practice knowledge, particularly in relation to innovative technology and products, and the environmental aspects of community development and renovation.
- Finally, demonstration projects, like EQUilibrium for Houses and EQUilibrium Communities represent a key step in moving new technology and innovation into the marketplace, and in identifying regulations that are barriers to such changes.

The fourth area where investment is a high priority are the initiatives that have played such a profound role in the improved environmental performance of Canadian homes.

These include the R-2000 initiative, the EnerGuide Rating System, and ENERGY STAR for New Homes. It also includes the ecoENERGY Retrofit-Homes Program that has created such tremendous momentum with existing homeowners.

The fifth, and final area where continued federal investment is critical relates to human resource development.

There are two distinct areas that deserve attention and action.

The first of these is the skilled people that are required to build and renovate homes.

- We need an immigration regime that welcomes to Canada those with the skills we need.
- And we must build an apprenticeship system that attracts young people to pursue careers in our industry.

Much more work needs to be done in both areas.

The second area of human resource development has to do with the next generation of new home builders and renovators.

We must take the steps today to ensure that tomorrow's builders are able to get a foothold in our industry – and can acquire the skills and knowledge needed to thrive in a complex business environment.

Minister, I have a great interest in this area, and I'm proud of the leadership our industry is showing through initiatives like the Professional Home Builders' Institute of Alberta.

However, we need far greater government commitment to the full range of human resource challenges our industry faces.

Continued Federal investment in each of these critical areas is a top priority. These investments address public policy objectives of government. And each holds significant benefits for housing consumers.

I look forward to working with Minister Finley on this investment agenda, in the coming days.

Minister Ashfield, I've talked about areas where government needs to reduce the costs imposed on housing, and areas where federal investment remains vital.

Before closing, I want to touch on one area where governments should extract far more revenue – in fact, billions of dollars more each year.

Here I am speaking of the underground 'cash' economy in home renovation services.

The cost to governments of rampant illegal 'cash' contracting adds up to billions every year.

The cost to legitimate professionals in our industry is even higher. We lose jobs and income, our efforts to build a more professional industry are undermined, and the reputation of our industry suffers from the problems consumers encounter when they deal with 'cash' contractors.

With the introduction of HST in Ontario and BC, and higher HST rates in other provinces, this problem has been magnified.

Minister, the CHBA greatly appreciates your interest and concern about the problem of the underground 'cash' economy.

As you know, the CHBA has put forward a number of actions to combat this problem.

I look forward to discussing these with you further in the weeks ahead.

Minister, in closing, let me reiterate that federal leadership on housing issues is incredibly important.

The federal government has done many things right, and it has the capacity to get things done.

As I've outlined today, we face a number of important challenges.

The case for change is both compelling and immediate.

Working together, we can get it right.

More importantly, we must get it right.

Thank you.

