Presentation to House of Commons Standing Committee on Finance on Friday, November 8, 2002 Pre-Budget Consultations

First of all, the Winnipeg Real Estate Board appreciates the opportunity to share some of our viewpoints with the federal finance committee during your pre-budget consultations.

The vast country we live in is made up of many different regions and your recognition of that fact in coming to Winnipeg today is welcome. Our hope is you will leave today with a better understanding of our issues and as a result the Government will be able to draft a federal budget that is more sensitive to and reflective of our local needs and requirements.

Our Board is the longest running real estate board in the country and it will make this fact abundantly clear next year when it celebrates its 100th anniversary. Its over 1000 REALTOR members which are also members of the Manitoba Real Estate Association and the Canadian Real Estate Association will carry out over 10,000 MLS® property transactions this year.

As the Board heads into its final stretch drive to the end of 2002, there is a good chance we will go into our centenary with MLS® sales eclipsing $1 billion in total dollar volume for the first time ever.

Yes, even in Winnipeg, where we do have some of the most affordable housing in the country, there is an upper end to our real estate market and more significantly there have been healthy price increases throughout the entire market due to strong housing demand and shortages on the supply side.

Of particular note, is that through housing rehabilitation efforts in Winnipeg's inner city, where the housing stock has deteriorated substantially over many years and the average MLS® area sales price experienced a precipitous drop in the 90s to levels under $20,000 in one MLS® area as an example, it has now been reversed and not only are there some dramatic percentage price increases but more sales activity as well.

We will get into Winnipeg's affordable housing situation in a little more depth but first let me give a quick overview of our Board's support for the key planks in CREA's budget submission.

Our main statement here is that fiscal prudence needs to be strictly adhered to and that means maintaining discipline with respect to incorporating debt payments as an integral part of the budget and providing for a $3 billion contingency reserve to avoid going back to a deficit. It is paramount you keep spending in check, for if it is not, the huge dividends the committee spoke of last year from paying down the debt will be lost.

The good progress you have made on the economy has had extremely positive results in the housing market with strong employment and income numbers and historically low mortgage rates. It has translated into a very favourable housing affordability index that is spurring on all facets of the housing industry. There is no question housing is a key driver in our economy given all the spin-offs that results from record property sales activity.

Far from us being self-serving, it is certainly in your best interest to create conditions where residential investment represents billions of dollars worth of economic activity. CREA has stated that MLS® sales activity is up 16 per cent over last year during the first nine months so not surprisingly they expect to break last year's record of over $73 billion in property transactions.

Earlier this year, the Winnipeg Real Estate Board-led Housing Opportunity Partnership or HOP as it is more commonly referred to, participated on an affordable housing panel at CREA's PAC Days conference in Ottawa. One of the panel speakers was Judy Sgro, the chair of the Liberal Caucus Task Force on Urban Issues.

The interim report from this Task Force has clearly identified the shortage of affordable housing and called for a long-term national affordable housing strategy. It was encouraging to hear affordable housing is back on the national agenda but now that it is, what is the best course of action to take?

Based on HOP's success in Winnipeg and the positive response it received from a large gathering of REALTORS across the country at the PAC conference, we think the Government should embrace the practical and market savvy experience of REALTORS to strategically implement market-based solutions that will spread limited government resources further.

HOP's focus on homeownership and its targeted clustering of close to forty house acquisitions with over $2 million in housing rehabilitation work, has enabled it to sell completely refurbished homes for significantly higher prices in this West End inner city area and resulted in more neighbourhood stability and an overall area improvement in house prices.

For example, for the period January 1 to June 30, the average MLS® sale price in this area has gone up 58% from 1999 to 2002. The percentage of listings that are selling has nearly doubled in this same period of time. HOP and other not-for-profit housing groups that have stepped up their renewal activity in the past few years are clearly making a difference in this area. A typical HOP home is a two-storey 1200 sq. ft. three-bedroom dwelling that sells on average for $70,000. So, given such favourable existing mortgage rates, these homes in our estimation certainly qualify as affordable homes.

The newly renovated homes HOP completes are relatively maintenance free since major components of the house are brand new. In many instances, HOP homes replace vacated run down premises or rooming houses. The new homeowners are exhibiting strong pride in homeownership. They have a direct investment in the community and are going to do everything they can to ensure their house values are secure.

In terms of HOP's operations and administration, one of the reasons it is able to produce as many homes as it does, is attributed to its ability to maintain an overhead cost of roughly 11% per home.

It is important to note here that in another key inner city area of Winnipeg which is at the center of Winnipeg's North End, a number of REALTORS are playing a pivotal role in trying to reclaim and rejuvenate it. Similar results are beginning to materialize. The same three-year period between 1999 to 2002 shows a 60% increase in the average MLS® sale price.

The fact of the matter is, REALTORS make it their business to be informed about the housing market and are a valuable resource in matters relating to housing. Any federal affordable housing programming, which may include initiatives such as homeownership education training, needs to include REALTOR and/or organized real estate's participation and input. They bring market expertise to the table and actively work to create local solutions.

Owing to the shortage of time, here are a few of our suggestions that we believe the federal finance committee needs to consider when embarking on a federal government strategy for affordable housing.

As CREA has stated in its recent submission to you, while direct spending is necessary to address a demonstrable need for affordable housing, there has to be more thinking and action outside of the box to tackle head on systemic barriers to housing affordability. You need to seriously look at tax incentive solutions that can stimulate the construction of new affordable rental units. These include:

- Residential rents be zero-rated under the GST so landlords can recover tax paid on purchases, repairs and improvement through input tax credits.
- Rental investors should qualify for the small business deduction for income tax purposes.
- All taxpayers should be able to apply capital cost allowance losses against income from other sources.
- Allow capital gains tax to be deferred when an investment property is sold, provided the proceeds within a restricted period of time are re-invested in another property.

A major benefit of the capital gains tax deferral is to stimulate affordable housing since many small investors that hold rental housing will have an incentive to sell and invest in larger properties. In the short term, the government will reap tax revenues from a larger volume of transactions with their economic spin-offs and will recapture the deferred taxes later when they are payable upon disposition.

Helping renters move into home ownership as HOP has been successful at doing through downpayment assistance can be another important strategy especially in markets like Winnipeg where housing is so affordable. Not only are you helping revitalize and stabilize neighbourhoods through increasing home ownership but there is also the concomitant benefit of freeing up extremely tight affordable rental units.

Finally, with respect to the RRAP program, and I am speaking in what we understand is happening in Winnipeg, it is critical that you ensure the integrity of it is maintained to address what it was originally intended to do – that is, to provide low income qualifying homeowners and landlords with modest forgivable loans to bring the units up to minimum standards for health, safety and accessibility.

Winnipeg is second to only Montreal for having the highest per capita percentage of older housing stock in the country so the need for RRAP support will only expand. This will require continued funding at appropriate levels.

Other programs such as the recently announced Affordable Housing Initiative, a joint venture of the federal and provincial government, should be the source of funding for the not-for-profit housing groups that are active in neighbourhood renewal efforts. This does not preclude targeting RRAP dollars to the homeowners and landlords in the areas that have been designated for neighbourhood rehabilitation, especially in light of reduced RRAP budgets.

It really is a two-pronged approach where RRAP dollars are needed in tandem with a strong and enforceable local property maintenance and occupancy by-law.

We will be glad to take any questions.