Urban Development Institute
Edmonton Metro

Edmonton Region
Canadian Home Builders' Association

**December 1, 2023**

Urban Planning Committee
City of Edmonton
1 Sir Winston Churchill Square
Edmonton, AB T5J 4R7

**Re: December 5, 2023, Urban Planning Committee - Item 7.3 – Affordable Housing Contributions Approach**

Dear Members of Urban Planning Committee and City Council,

As Edmonton's major real estate industry associations who represent hundreds of member companies that support diverse homebuilding and purpose-built rental businesses across the metro region and in other national markets, we are writing to express our shared concerns and highlight key opportunities relative to work undertaken on an approach for developer-funded affordable housing contributions approach.

Our industry is committed to attracting ongoing economic development and supporting Edmonton in its pursuit of building great neighbourhoods that welcome new families and residents into attainable housing as our population grows. As we are all keenly aware, Canada is facing a widespread housing affordability crisis, and as such, our industry does not support the imposition of new levies, fees, charges or delays that will inevitably increase the cost of housing for new homebuyers.

*Keeping Edmonton's market housing financially attainable*

Edmonton's market housing affordability is a key strategic advantage. We are the last major Canadian city that offers affordable home ownership and rental accommodations that currently fit within the Canada Mortgage Housing Corporation's (CMHC) definition of housing affordability, which is a maximum of 30% of net household income going to shelter. Our focus, as an industry, is on maintaining market attainable housing for both rentals and ownership. Increased costs imposed by governments on the price of new home construction can erode affordability significantly for homebuyers and renters, thereby increasing pressure down along the affordability continuum. Even marginal increases in costs can price out a significant number of potential home buyers. For example, for every $10,000 added to the cost of an entry-level home (benchmarked at $400,000), 7,951 households within the Edmonton Metropolitan Region are priced out of the housing market. When this increases to $50,000, an estimated 36,998 will be priced out (attachment 1). According to the City's own description of core housing need, these households would then be added to the expanding group of households requiring some form of government subsidization for housing.

Keeping more households within market attainable housing is the best way to structurally reduce the growing need for affordable housing. Every action to promote this goal matters, and all costs add up. For example, in jurisdictions within Canada where inclusionary zoning has been deployed, the estimated impact on the price of a home ranges between an additional charge of $25,000 to $60,000 per market unit. Further, it is often the most financially precarious new homeowners who make up the bulk of new real estate purchases for their households, a large proportion of whom are new arrivals to the city, province, and country. In an effort to subsidize some homes for a few in this manner, the costs for all will go up. This effect has been clearly demonstrated in other municipalities where inclusionary zoning and development charges have been deployed.

From a principles-based perspective and in a functioning market economy, the private sector is responsible for delivering market goods such as housing and the public sector is responsible for social goods such as non-market housing (of which there is a wide range stretching between subsidies to make market housing attainable to fully supportive housing that includes operations-intensive wrap-around services). As such, it is not the responsibility of a small segment of private consumers – in this case, buyers of new homes – to engage in income-redistribution activities via a targeted consumption tax that should be borne by society overall through income redistribution mechanisms by orders of government.

To expand on this point, in 2022, there were 12,217 net new units created in Edmonton serving a population of just over 1 million people within an existing housing stock of approximately 390,000 dwelling units in total. Hypothetically, if additional affordable housing charges were applied just to purchasers of these 12,000 new units in 2022, the result would be that 3% of the homes in Edmonton, that year, would be subsidizing 100% of the societal cost for below market housing via the deployment of this particular policy tool that could have otherwise been spread across all 390,000 households though other mechanisms. This is a highly inequitable approach and distorts the marketplace while penalizing a small segment of the population -- purchasers of newly constructed homes, which are often first-time buyers. By placing the burden of funding an essentially income-redistribution activity (subsidizing a market good) onto only a fraction of the population (buyers of new homes), we are charging a social cost that should be borne by all taxpayers through income tax to a very limited number of consumers each year through additional charges on their purchase.

*Addressing the continuum of affordability*

As one of the key drivers for market unaffordability is constrained supply, our efforts should be focused on removing barriers such as regulatory burdens and additional levies and taxes to improve the overall affordability of housing in Edmonton, including non-market housing. If and as housing prices increase due to growing fees, charges, and other consumption taxes levied by the municipal government, the bottom line is that the overall stock becomes less affordable and the number of people and households requiring assistance to attain market housing shrinks. Adopting more policy requirement and adding costs is at odds with the City's desire for a more permissive, enabling environment that supports housing affordability as per the following major target in The City Plan: "Less than 35% of average household expenditures are spent on housing and transportation."

Work conducted to date by Administration has failed to clarify where in the housing continuum any proposed market interventions would be targeting. This is a significant gap and has limited our collective ability to host productive conversations on realistic tools and strategies that can be employed. Further, the analysis undertaken by the City's consultants on this matter indicate that the context and timing of introducing new fees can erode and counteract the intended effects of the measures being considered by Administration – particularly the introduction of inclusionary housing and offsite levies. Additionally, there are too many gaps in terms of alternative solutions proposed in the report.

What is clear is that adding additional red tape and costs to market homebuyers runs contrary to the objectives highlighted by orders of government as Canada's housing crisis of market unaffordability accelerates. By pursuing policies such as this, the City would be working against the regulatory burdens cities across the country are looking to remove.

Recognizing that the private sector is set up to deliver market goods in a timely and efficient manner in response to demand and the public sector has the capacity to subsidize market goods via income redistribution mechanism such as income tax through its orders of government, there may be opportunities for the private sector to work with non-profit providers in a P3 arrangement (or other) where they can profitably provide housing that is managed and subsidized by governmentally-funded agents or non-profit corporations. This could be an area worth exploring over the course of the project. Traditional solutions such as utilizing the general property tax and tax supported debt would be an appropriate way to subsidize housing at the city level if this aligns with municipal jurisdiction and capacity. Additionally, the City's own assets (land in particular) could be leveraged to generate money for affordable housing projects or income/rent supplements, potentially through a dedicated fund.

*Recommendations going forward*

It is essential that any new policy be poised to amplify Edmonton's affordability advantage without eroding the value and viability of current and future private investments. Development incentives, public/private partnerships, removal of development barriers (i.e. mitigating infrastructure scope creep), and alternative financing mechanisms (i.e. seed funds, infrastructure bonds, etc.) are all viable alternatives and could build upon other provincial and federal programs, such as the CMHC Mortgage Loan Insurance (MLI) Select program. If and as work continues on this project, it should be structured to identify key drivers for affordability (notably supply and planning policy) in Edmonton and determine how to improve that overall so that affordability improves for all (including non-market housing). For reference, a diagram on the proportional attribution of costs of a home produced in 2021 is included (attachment 2).

Industry has invested almost two years in conversation with Administration on this topic and is open to ongoing dialogue that leverages the expertise and distinct roles of the public and private sectors. However, to move forward effectively, a more streamlined approach and focused discussion is required. Clarity, transparency, and sound methodology are all critical ingredients. In particular, it will be important to identify actions that will not erode affordability in the name of improving it. Through dialogue over the course of the process, industry pointed to the successful outcomes achieved in Calgary through the Resolve Campaign, and is open to ongoing conversations about how this could be deployed in Edmonton.

Council's attention to affordable housing is commendable and critical. We believe this commitment should extend to maintaining market attainable housing for both rentals and ownership. We would be pleased to work with you on these recommendations and encourage a balance of creative thinking with prudent approaches. While the challenges of running a city are many, the solution cannot be adding more burdens to its residents by increasing the cost of housing. Edmonton can be a national leader in delivering a city that works for Canadians and provides homes for everyone.

Sincerely,

| | |
|---|---|
| Kalen Anderson | Laura Bruno |
| CEO, UDI-EM | CEO, CHBA-ER |

Attachment 1: "Housing Everyone: Impacts of Increased Costs to Housing Affordability," UDI-EM, 2022

Attachment 2: "What goes into the cost of a new home in Edmonton" CHBA-ER, 2021

Copy: Office of the City Clerk
Andre Corbould, City Manager
Jennifer Flaman, Deputy City Manager, Community Services
Kim Petrin, a/ Deputy City Manager, Urban Planning and Economy
Stacey Gellatly, Branch Manager, Social Development, Community Services

Attachment 1: “Housing Everyone: Impacts of Increased Costs to Housing Affordability,” UDI-EM, 2022

Urban Development Institute
Edmonton Metro

# Housing Everyone

## Impacts of Increasing Costs to Housing Affordability

# Currently, the Edmonton Metropolitan Region has an affordability advantage in comparison to other major municipal regions within Canada. However, this advantage is precarious as marginal increases in costs can price out a significant number of potential home buyers.

The Urban Development Institute – Edmonton Metro (UDI-EM) engaged in a study to examine the impacts of increasing costs on affordability and subsequent challenges for first-time homebuyers entering the housing market. This research examined the number of households priced out of purchasing an entry-level home ($400,000) through price level increases ranging from $10,000 to $50,000.

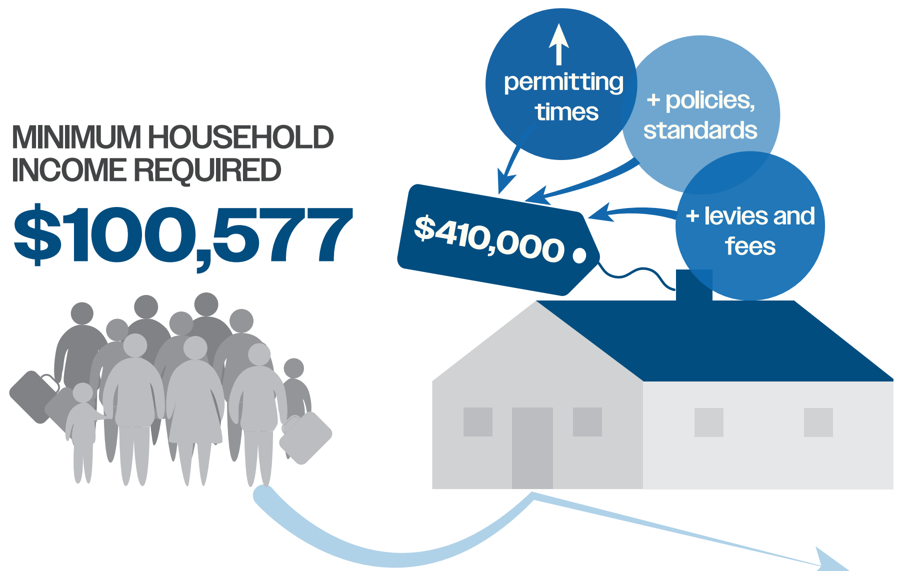
## MINIMUM HOUSEHOLD INCOME REQUIRED

**$98,416**

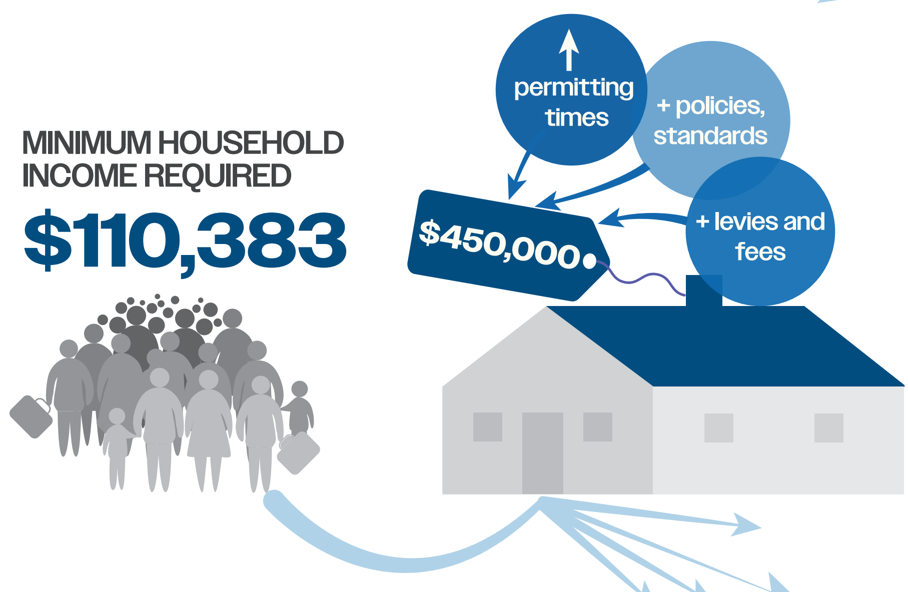
## Increased costs erode affordability, thereby increasing pressure down along the affordability continuum. Costs are often associated with municipal regulations, policies, standards, and permitting timelines.

To ensure a competitive and welcoming region that supports affordability, it is imperative that elected officials and administration create a business-friendly environment that provides a clear and predictable picture of development requirements, timelines, and costs to ensure speed-to-market. This is a critical time that calls for public and private sector partnership to identify solutions that enable attainable housing that meets market demands.

**An increase of $10,000 to the purchase price of an entry level home prices 7,591 households out of the market.**



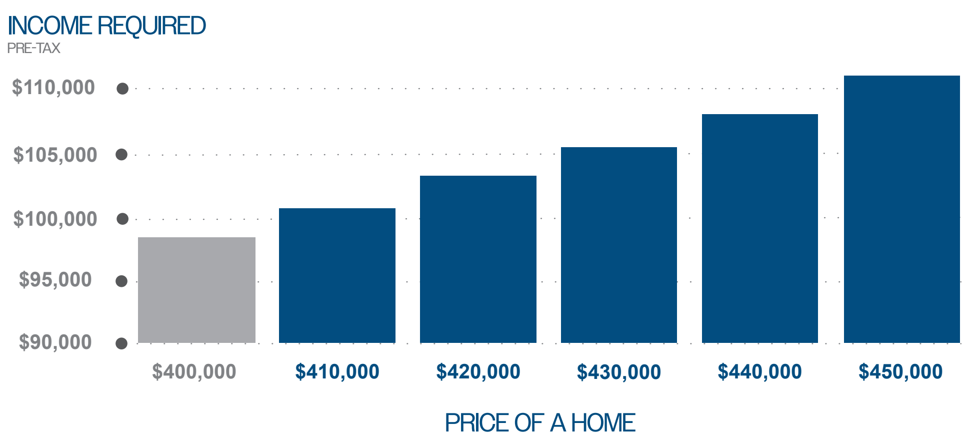

**With an increase of $50,000, 36,998 or 6.7% of Edmonton Metro households would be priced out of the market.**



# RESEARCH METHODOLOGY [1]

UDI-EM engaged a third-party research consultant to conduct this research[2]. Statistics Canada provided UDI-EM with detailed income distributions (2021 Census of Canada), focusing on the Edmonton Metropolitan Area (CMA). These income distributions were based on the before-tax income that households reported to Canada Revenue Agency (CRA) on their 2020 T1 tax returns. The data provided income ranges for 548,625 households with a median pre-tax household income of $96,000.

UDI-EM chose a target price of $400,000 as a benchmark for an entry-level new home price. This value represents the purchase price of a typical new semi-detached unit based on market data provided by CMHC for the Edmonton CMA. In estimating the income required to purchase a $400,000 new home, an assumption of a minimum 5% down payment, mortgage insurance premium, 35% debt service ratio and average taxes were made. Under these assumptions, the prospective buyers would need to qualify at the Bank of Canada 5-year fixed mortgage rate (6.14%, September, 2022) using the maximum 25-year amortization allowed by mortgage insurers.




Based on the above model, a household would require an income level above $98,416 to afford a new home with a purchase price of $400,000, including GST.

Raising the price by $10,000 would increase the qualifying income to purchase by 2.5% to $100,577. Within the Edmonton CMA, this price increase would leave 7,591 households (1.4% of total) priced out of the market at the new price point. See the bar graph above for a visual representation of how the increasing price of a home impacts the (pre-tax) household income required to purchase.

All of these households would have to delay their purchase until they could increase their down payment and reduce their carrying costs.

The number of households who could no longer qualify at each price increment were estimated based on the revised qualifying income levels (based on the new price point) and where that value fell within the income ranges provided by Statistics Canada.

[1] Data is available upon request.
[2] Richard Goatcher has over 35 years' experience as a housing market analyst in Manitoba and Alberta. He was employed by Canada Mortgage and Housing Corporation (CMHC) for over 25 years.

# DISCUSSION

**The Edmonton Metropolitan Region has a competitive advantage of attainable housing of all forms, great quality of life, and good paying jobs and opportunities. The region – one of the most-affordable major municipal regions in Canada – benefits from solid employment opportunities, a younger population, and increasing net migration (interprovincial and international). These factors all serve to drive housing demand.**

However, there are also a number of externalities to consider when contemplating increasing cost pressures.

With qualifying mortgage rates for insured loans having risen several times throughout 2022 – and with further increases expected in the months ahead as the Bank of Canada attempts to tame rising inflation – these rate increases will only serve to exacerbate the ability of households to qualify for financing. Additionally, recent and significant increases to the inflation rate along with increases to the input costs (i.e., supplies) have created significant upward pressures on housing costs.

To ensure that the Edmonton Metropolitan Region remains an attractive place for people to migrate to and from across Canada and around the world, both the public and private sector will need to pivot and adapt within a changing landscape of policies, processes, supply chain pressures, commodity prices, lending rates, inflation issues, and more.

**Urban Development Institute**
**Edmonton Metro**

The Urban Development Institute-Edmonton Metro (UDI-EM) is a non-profit, member-driven organization representing leaders in the land development industry in all communities throughout the Edmonton Metropolitan Region.

Our members are development companies, planners, surveyors, architects, engineers, contractors, finance managers and others. Collectively, they build new neighbourhoods, ambitiously redevelop our urban core, develop commercial and industrial areas that enable new business opportunities, and create the parks and open spaces treasured by residents and visitors.

As city builders, we are united as champions of economic growth and are trusted, expert leaders in real estate development. UDI members shape municipal policy and regulations to support housing diversity, maintain the region's affordability advantage, and attract talent and economic investment.

**info@udiedmonton.com**

**780.428.6146**

**udiedmonton.com**

# What Goes Into the Cost of a New Home in Edmonton

**Future investment in Edmonton is hinged on preserving housing affordability**

## 8% Development Charges

**$39, 067**

Fees and levies imposed on new homes by the City of Edmonton. These charges cover the cost of additional city infrastructure and services related to the new home including roads, sewer, water, and municipal reserve dedication.

## 14% Taxes & Fees

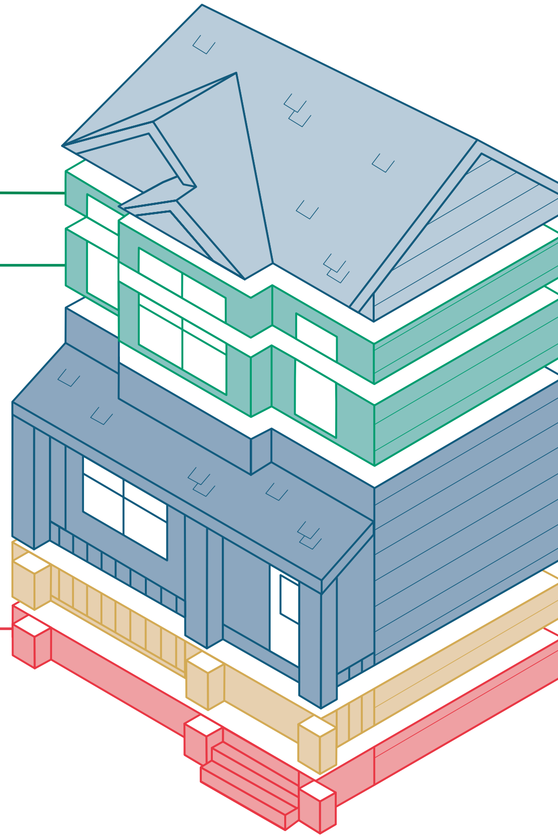
**$67, 145**

Includes building and development permits, property taxes, other municipal fees, land holding costs related to permit and inspection timelines and GST.

## 8% Profit

**$40, 556**

Profit is the difference between the purchase price of a new home and the costs of bringing it to market.



## 20% Serviced Lot Costs

**$101, 573**

Includes all of the on-site infrastructure required to service a lot such as roadway, utilities (water, sewer, electrical, gas, phone/ internet/cable), lanes, walkways, boulevards, etc., amenities built at the discretion of the developer and developer business operations.

## 42% Construction Costs

**$211, 884**

Costs of building material and labour required to build the actual house.

## 8% Business Operations

**$38, 525**

Home builder’s activities and day to day functions conducted for the purpose of building and selling a home. These costs include employee salaries, professional fees, office overhead and marketing and sales.

**$475,000**

+$23,750 GST

Cost of a Single Family Home

CMHC Market Absorption Survey, 2020

## Infill Homes in Edmonton

Infill plays a critical role in expanding housing choice that is necessary to meet the growth and intensification targets outlined in the City Plan.

There are additional costs and barriers that make the average cost of an infill home much higher. During construction, infill home builders must account for additional costs including initial carrying costs, demolition of the existing home, subdivision, asbestos abatement, tree protection, permit timelines, adding and upgrading infrastructure, and red tape.

*Edmonton Region*

Canadian Home Builders' Association