

# DAILY COMMERCIAL NEWS

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## AND CONSTRUCTION RECORD

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Residential Construction Council of Central Ontario

### **Reduce tax, regulatory burdens on new home buyers, RESCON official says**

Construction Corner  
Richard Lyall

Sales data for new housing construction in the GTA showed calamitous drop in October and November of more than 50% compared with 2007 numbers.

Forecasts for 2009 are not expected to be any better and every indication suggests new sales are drying up. A continuation of this trend would herald a radical change in the market, which will quickly be reflected in a drop in starts especially if deals and projects fail to materialize.

Indeed, one forecast has housing starts and related construction employment dropping approximately two-thirds by 2011.

By all accounts, this is not unique to Ontario, with many other markets facing similar prospects. This will quickly have a massive impact on the industry, GDP and government revenues.

The economic effect will be accentuated by the fact that new construction relies heavily on domestically sourced materials and is labour intensive — unlike more automated industry sectors relying on foreign components.

New housing sales in the U.S. have already fallen by two-thirds. That trend continues. Notwithstanding the fact our financial system is in better shape, consumers are now clearly apprehensive with the economic uncertainty and cost.

As with prior market downturns, these developments will precipitate the need for government action to encourage new home sales in order to prevent a collapse and generate revenue for various government coffers.

Incentives by way of mortgage guarantees, tax credits and grants of various configurations must be considered as part of government attempts to stimulate the economy.



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This also creates an opportunity to recalibrate the many accumulated government-imposed wrongs in the Ontario housing market and quite possibly others.

In recent years, during a time when real incomes have been flat or falling, local regional and the provincial governments have been loading massive cost increases onto the industry such as astounding 100 to 400 per cent increases in development charges.

Construction-related regulatory and tax burdens in the last decade have increased far beyond the inflation rate or the economic capacity of consumers. Many of the regulations and procedures are delivered and enforced without regard to their efficiency or cumulative impact.

As such, the industry has been stretched to the point where it has been left with little capacity to respond to economic shocks given the degree to which its costs are externally determined and imposed.

These largely hidden costs are passed on to new home and condo buyers. Historically low interest rates, rising demographics and employment growth masked the increased costs.

According to the RBC housing affordability measures, a standard two-storey Toronto home now stands at 63% of pre-tax family income. In all, the system has now reached the point where the bulk of new housing costs are not construction-related.

The time it takes to approve projects and the associated costs are going to have to be reduced. The tax and regulatory burden on new home buyers will have to be lowered and streamlined.

To be sure, these problems are not something new. The industry has been unsuccessfully calling for greater accountability in government-imposed measures affecting costs.

However, there was obviously little appetite for this by authorities in an expanding market. The industry was treated as a captive cash cow.

The question will be how long it takes for governments to recognize and extend relief to the industry and consumers? CMHC past research shows the sooner this happens, the better.

We expect the enlightened self interest of the rapidly emerging need to get projects going and generate revenue will overpower reticence and inertia.

Richard Lyall is president of the Residential Construction Council of Central Ontario (RESCON).