

***Housing Construction Will Play a Key  
Role in the Economic Recovery***

Completed for:

**RESCON**

By:

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## ***Introduction and Summary***

### ***Introduction***

It is well known that economies around the world are in recession or in the process of entering into recession. It is also well known that housing is a leading economic sector – housing construction can be expected to be one of the worst affected sectors during the coming downturn, but can also play a key role in leading the economy out of recession.

In recent months the new homes market has turned sharply downwards, as sales of new homes have dropped to very low levels. This downturn is not yet evident in housing starts, but it soon will be.

Housing construction is a very significant generator of jobs and government revenues, for the federal, provincial, and municipal governments. As housing starts fall during 2009 and beyond, employment will be reduced in construction and related industries. Government revenues will also fall.

This report begins by discussing evolving trends and the outlook for the new homes market for the Greater Toronto Area and then the province of Ontario. Forecasts of housing activity for 2009 to 2011 are used to estimate changes in employment in construction and related industries, as well as for government revenues.

The outlook is bleak.

What is less well known is that there are opportunities to improve the affordability of new housing: pursuing these opportunities would cause housing demand to be stronger than it would be otherwise. The resulting boost to employment would contribute to an earlier and stronger economic recovery than would otherwise occur. The negative impact on government revenues would also be reduced. Some of these options require quite a lot of work - some by governments and some by industry - and will take time to implement. Starting work now will set the stage for a more robust recovery in the future.

As was the case in the two prior recessions, governments will want to reduce the economic damage that would be created through an excessive downturn in the housing market, and to accelerate the housing market recovery that will contribute to the return to health of the broader economy.

The opportunities for improving housing affordability include:

- Provide financial assistance to buyers of new homes. This could include the introduction of temporary new home buyer grants and mortgage finance supports for new housing development. It could also include making new homes eligible for the rebates that are available for energy efficiency retrofits of existing homes.
- Correcting a long-standing bias in the GST paid for new homes.
- Reducing the fees and charges that are applied to new homes by municipalities. These costs have become excessive during the past decade and have contributed to the evolving slowdown in the new homes market.
- Streamline the processes for approving new developments, to reduce the costs of waiting for approvals and the costs of participating in the approval process.

- Increase the efficiency of the construction process.

A further substantial concern in the residential sector is that builders are encountering increasing difficulty in obtaining financing for their projects. There is escalating risk that even for projects (both low-rise and high-rise) that have been substantially sold some of those sales may not be converted to housing starts. This risks making the housing downturn even deeper than it would otherwise be. There may be a need for governments to assist in the provision of construction financing.

This research report has been completed by Will Dunning Inc. at the request of RESCON. The focus of the study is on the Greater Toronto Area, with additional discussion about the province of Ontario.

In addition to this Introduction and Summary:

- The study begins by reviewing recent trends in the new homes market in the Greater Toronto Area and Ontario.
- Then, forecasts of housing starts for 2009 to 2011 - which show housing starts at considerably lower levels than in prior years - are discussed.
- Estimates of economic impacts (jobs created and the resulting wages) and fiscal impacts for the federal and provincial governments are developed for actual housing starts activity during 2004 to 2007 as well as projected impacts for 2008 to 2011.
- The final section discusses the options for improving the affordability of new homes and the potential impacts on housing demand, job creation, and government revenues.

### **Summary**

Construction of new housing peaked in Ontario and the Greater Toronto Area during 2002 to 2004 and has subsequently slowed. In consequence, the numbers of jobs generated by the construction have also fallen, as have the associated revenues received by the federal and provincial governments.

While housing starts in the GTA rebounded in 2008, this appears to be a temporary event, resulting from sales of condominium apartments that occurred in prior years.

Data on sales of new homes (which is available for the GTA but not for all of Ontario) shows that there was a very sharp slowdown in housing demand in the second half of 2008. This will result in a corresponding sharp reduction of housing starts during 2009.

Furthermore, forecasts developed by the author suggest that the developing economic recession will cause new home sales to remain very weak into 2011. Even though the economy is forecast to begin recovering during the second half of 2010 there would be limited impact on the demand for new homes. By 2011, housing starts in the GTA would be 69% lower than in 2008. It appears that the recovery of housing starts may be delayed until 2012.

Residential construction is a very significant generator of employment. For 2008 it is estimated that new housing starts created about 140,400 jobs in Ontario, through direct employment in construction (about 76,600 jobs) and in the industries that supply goods and services to the construction process (63,800 jobs). The construction activity also generated significant revenues for the federal and provincial governments (totalling about \$3.8 billion) from income taxes on the wages earned, sales taxes, as well as premiums for Canada Pension Plan, Employment Insurance, and Workplace Safety and Insurance Board.

In the GTA, the impact for 2008 is estimated at 93,500 person years of employment and \$2.56 billion in federal and provincial revenues from the sources listed above.

Looking forward, reduced construction of new homes implies that fewer jobs will be generated and federal and provincial revenues will fall. Employment will be reduced in construction and in the industries that supply goods and services to the construction process. Estimates developed within this report suggest that:

- In the GTA for 2009, the resultant employment would be 37% lower than in 2008 (a drop of about 35,000 jobs).
- There would be a further large reduction in 2010 (40%, or 23,000 person years).
- A smaller reduction is projected for 2011.
- Federal and provincial government revenues generated by the construction would fall by corresponding amounts: from the \$2.56 billion estimated for 2008, the total would fall by \$1.7 billion, to about \$850 million in 2011.

Year	Housing Starts	Employment Generated	Total Wages (\$ Billions, in 2007 \$s)	Fiscal Impacts (\$ Billions, in 2007 \$s)		
				Federal	Provincial	Total
<b>"Status Quo"</b>						
2004	46,393	90,491	\$3.98	\$1.590	\$0.821	\$2.411
2005	45,533	86,649	\$3.96	\$1.576	\$0.844	\$2.328
2006	40,611	78,371	\$3.64	\$1.437	\$0.783	\$2.220
2007	36,230	84,511	\$4.05	\$1.539	\$0.862	\$2.401
2008	44,820	93,571	\$4.48	\$1.604	\$0.954	\$2.557
2009	29,351	58,710	\$2.81	\$1.006	\$0.598	\$1.605
2010	16,250	35,385	\$1.69	\$0.606	\$0.361	\$0.967
2011	13,821	31,354	\$1.50	\$0.537	\$0.320	\$0.857

Source: estimates by Will Dunning Inc, using data from Statistics Canada and Canada Mortgage and Housing Corporation.

For Ontario, the lack of data on new home sales makes it quite difficult to forecast how housing starts might be affected by the developing recession. Based on recent trends in resale market activity, the report concludes that the reductions in housing starts for Ontario would be less severe than for the GTA. The total reduction of housing starts for Ontario during 2008 to 2011 might be 55%, versus 69% for the GTA.

Employment generation and government revenues would fall by corresponding amounts:

- The employment generation would fall from 140,400 in 2008 to 67,600 in 2011.
- Federal and provincial revenues would fall from \$3.84 billion in 2008 to \$1.84 billion in 2011.

The final section of the report discusses options for reducing costs of new homes, and concludes that it may be possible to reduce the average price of new homes by as much as \$30,000.

While housing affordability is not the most important factor for housing demand – employment is much more important – lowering house prices would contribute to increased house demand, and therefore to increased job creation and government revenues. For example, simulations suggest that reducing new home prices by \$30,000 might increase housing starts by 14%. Demand would be shifted towards more expensive housing forms. In consequence, the total value of construction would be increased by 16%, and employment and government revenues would be increased by similar amounts.

Implementing these potential price reductions would not be easy and would take some time. Starting work now on these options would have very little impact on the short-term housing outlook. However, positive impacts would accrue in 2010 and beyond. These price reductions can contribute to an earlier and stronger economic recovery than would occur otherwise.

### ***About RESCON***

RESCON is a builders' organization dedicated to removing barriers to new construction and eliminating unnecessary costs. It coordinates a council of trade contractor associations to address issues of common concern.

### ***About Will Dunning and Will Dunning Inc.***

Will Dunning has been analyzing housing markets since 1982. In 2000, he established Will Dunning Inc., a consulting firm that specializes in economic and demographic analysis, especially analysis of housing markets. The website [www.wdunning.com](http://www.wdunning.com) provides various reports, including "Housing Market Digest", a monthly review of the GTA housing market.

### ***Disclaimer***

This report has been compiled using data and sources that are believed to be reliable. RESCON, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein. The opinions and conclusions in this report are those of the author and do not necessarily reflect those of RESCON.

## Housing Market Trends

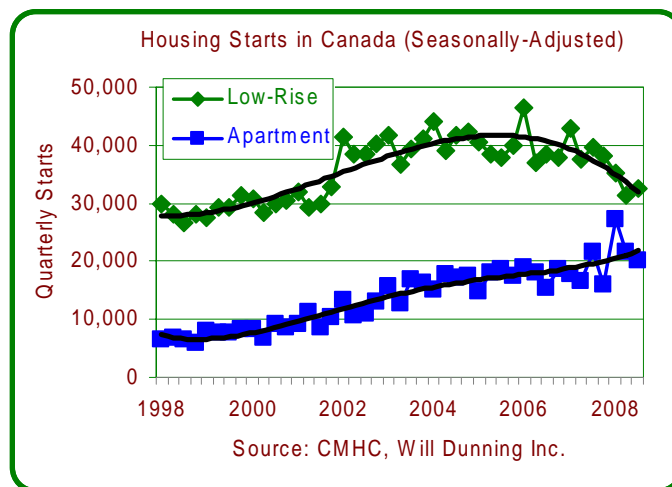
This section begins with a brief discussion of housing starts in Canada, Ontario, and the Greater Toronto Area.

However, housing starts are a lagging indicator – since the vast majority of new homes are sold prior to the start of construction, housing starts are an indicator of sales that happened earlier. Data on new home sales - where they are available – is a much better indicator of current trends in the new homes market, and of the outlook for future housing starts.

Since an established long term dataset for new home sales is available only for the Greater Toronto Area, that data is reviewed and a forecast is developed for housing starts in the GTA. Then, conclusions are drawn about the likely outlook for all of Ontario.

### Trends for Housing Starts

Housing starts data from CMHC indicates that new housing activity has slowed in Canada. The chart to the right illustrates that housing starts in Canada peaked in 2004, and were roughly stable but at a slightly lower level during 2005 to 2007. However, housing starts have slowed in 2008, and in the first 9 months of 2008, were 5% lower than in the same period of 2007. The table below shows that substantial drops were seen for each of the three types of low-rise dwellings, with reductions of 20% for single-detached homes, 11% for semi-detached homes, and 9% for row (town) homes. Overall, starts of low-rise homes were reduced by 17%. Apartments bucked that trend, increasing by a hefty 21%. (As will be seen shortly, the increase for apartments was centred within the Greater Toronto Area, and, in fact, largely within downtown Toronto).

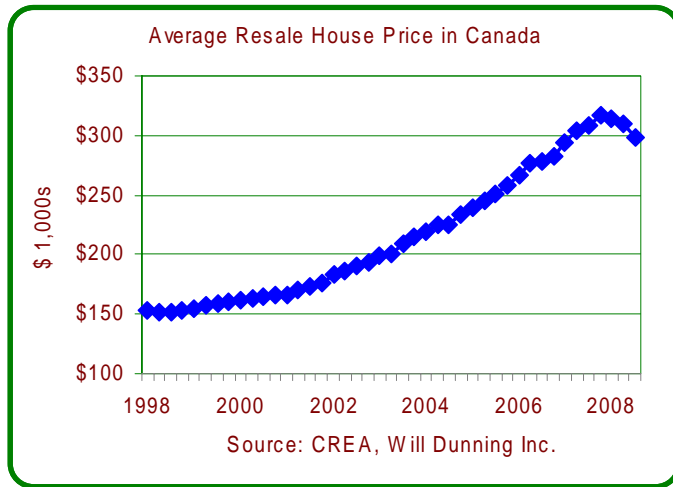


Thus, in addition to the overall reduction in construction activity, the data also shows a shift away from the most expensive housing form (single-detached homes), with lesser impacts on the less expensive housing forms. A consequence of this will be that the total dollar value of the construction for 2008, and the number of jobs generated by the construction, will fall by even more than the drop in unit starts.

The most important factor for housing demand is job creation, and the reduction in housing starts can be attributed in large measure to a slowdown in job creation. During the year up to September 2008, employment in Canada grew by 1.6%. While this is a healthy rate – slightly faster than the growth rate for the population – it was slower than

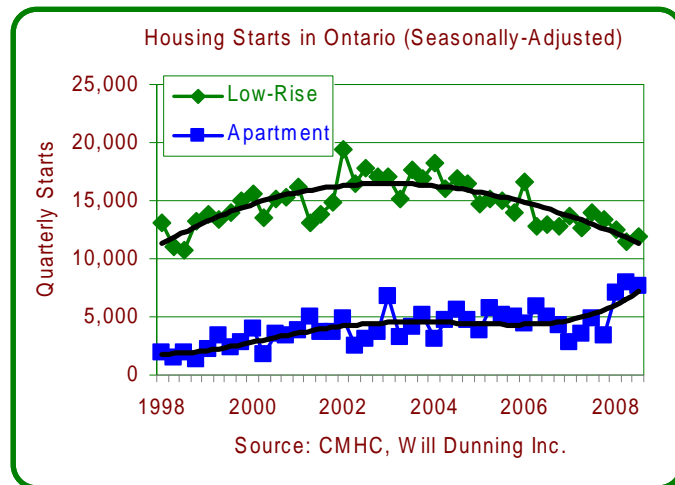
in prior years: employment expanded by 2.5% in the year up to September 2007, and an average of 2.1% per year in the six years up to September 2007.

Housing affordability is also a determinant of housing activity, although less important than job creation. During the past half decade house prices in Canada have increased very rapidly, as can be seen in the chart to the right, which shows the average selling prices of resale homes, as reported by the Canadian Real Estate Association<sup>1</sup>. While the average selling price has fallen in recent months, this has only slightly reversed the sharp deterioration of affordability that occurred during prior years.



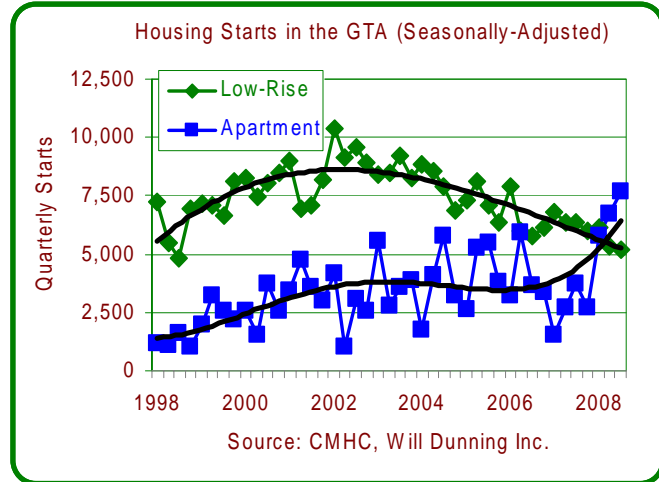
The erosion of housing affordability that has occurred during this decade has had a relatively small impact on housing demand, in terms of numbers of units of housing built. A more significant consequence has been a shift of demand towards lower cost housing options: while changes in housing affordability usually have little influence on the decision to buy a home, they do affect the choices that are made in terms of housing types, features, and locations. This point – that changing affordability can have significant impacts on the mix of housing produced – is a major issue that is explored later in this report.

For Ontario, housing starts peaked during 2002 to 2004 and then fell each year during 2005 to 2007. For the first nine months of 2008, however, housing starts increased (by 14%) as starts of apartments doubled. For low-rise homes, starts fell by 11% compared to the year earlier period, with large drops being seen for single-detached homes (13%) and semi-detached homes (23%). On the other hand, starts of row homes increased slightly (2%).



<sup>1</sup> Prices for new homes may increase at different rates than resale homes. Unfortunately, there is not a good measure of price changes for new homes in Canada. The Statistics Canada New House Price Index (“NHPI”) follows prices for projects that are already marketing. It measures increases that occur after the start of marketing; price changes that occur at the start of marketing are not measured. Therefore, the NHPI under-estimates the rate of change for new house prices. In consequence, the chart below shows prices for resale homes as a proxy.

For the Greater Toronto Area (“GTA”), housing starts peaked in 2002 and 2003. Starts fell slightly in 2004 and 2005, and then more significantly in 2006 and 2007. But, in the first nine months of 2008, starts increased by 29% compared to the same period in 2007. This rise is due entirely to apartment activity, which more than doubled (increasing by 139%). These apartment starts in 2008 in actuality resulted from sales that occurred in 2006 and 2007, and therefore they do not necessarily indicate the demand



conditions that exist in 2008. For low-rise homes, the GTA saw a 16% drop in the first nine months of 2008 versus the same period of 2007. Once again, reductions were larger for semi-detached and single-detached homes than for row homes.

As for all of Canada, the slowdown of low-rise starts in Ontario and the GTA can be attributed to weaker job creation<sup>2</sup> and the shift to lower cost housing forms can be attributed to reduced housing affordability.

**Table 2**  
**Housing Starts in the First Nine Months of 2007 and 2008**  
**Canada, Ontario, and the Greater Toronto Area**

	Single	Semi	Row	Apt	Total	Subtotal - Low-Rise
<b>Canada</b>						
2007	90,068	10,948	17,667	54,486	173,169	118,683
2008	72,320	9,787	16,134	65,748	163,989	98,241
% Change	-20%	-11%	-9%	21%	-5%	-17%
<b>Ontario</b>						
2007	27,820	3,225	8,627	11,150	50,822	39,672
2008	24,106	2,492	8,757	22,453	57,808	35,355
% Change	-13%	-23%	2%	101%	14%	-11%
<b>Greater Toronto Area</b>						
2007	12,130	2,248	4,747	7,727	26,852	19,125
2008	10,122	1,774	4,173	18,493	34,562	16,069
% Change	-17%	-21%	-12%	139%	29%	-16%

Source: Canada Mortgage and Housing Corporation, compiled by Will Dunning Inc.

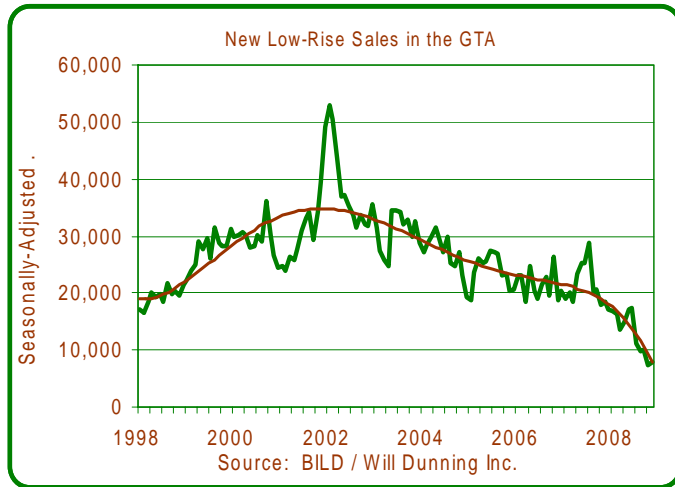
<sup>2</sup> For Ontario, Statistics Canada’s Labour Force Survey shows quite strong job creation for the year up to September, at 1.7%, very similar to the 1.9% rate seen over the prior six years. However, the Labour Force Survey data is generated by a sample survey. Like all sample surveys it has a margin of error and occasionally produces “out-riders” – estimates that are highly inaccurate. The September 2008 data suggests that 52,000 jobs (a 0.8% increase) were created in Ontario in just one month, which seems unreasonable. An alternative Statistics Canada survey, which is based on a survey of companies, estimates that employment in Ontario fell by 9,000 in September and that year over year growth was 1.1%, versus an average of 1.7% per year in the prior 6 years.

***New Home Sales in the Greater Toronto Area***

Data on new home sales in the Greater Toronto Area are collected by a private company (RealNet Canada Inc.) and summary results are published by the Building Industry and Land Development Association (formerly the Greater Toronto Home Builders Association). The survey has been conducted since the early 1980s and permits analysis of long-term market trends. The data also provides a basis for forecasting housing starts.

The available data segments the market into low-rise (single-detached, semi-detached, and row homes) and high-rise (apartments).

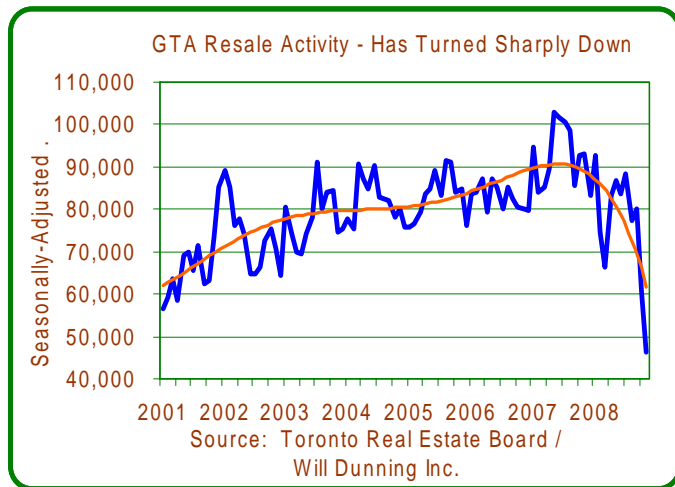
In the low-rise sector, as is shown in the chart to the right, sales peaked in 2002 (about 38,500 sales), slowed during 2003 to 2006, but were then but then were relatively stable during 2006 to late 2007 (with the annualized sales rates averaging about 21,500). During 2008, however, low-rise sales have dropped very sharply: for the first 11 months of the year, sales have been at an average annualized rate below 14,000; furthermore, from July to



November, the average sales rate was just 9,200, a fall of more than one-half from the sales rate seen during 2006 and 2007. In both October and November the sales rates were below 8,000, more than 60% below the 2006/2007 figures.

Since housing starts depend on prior sales, the starts figures seen during 2008 (the 17% reduction seen in the first nine months) did not fall as sharply as did new home sales – the further downward adjustment of low-rise housing starts will occur as 2009 unfolds.

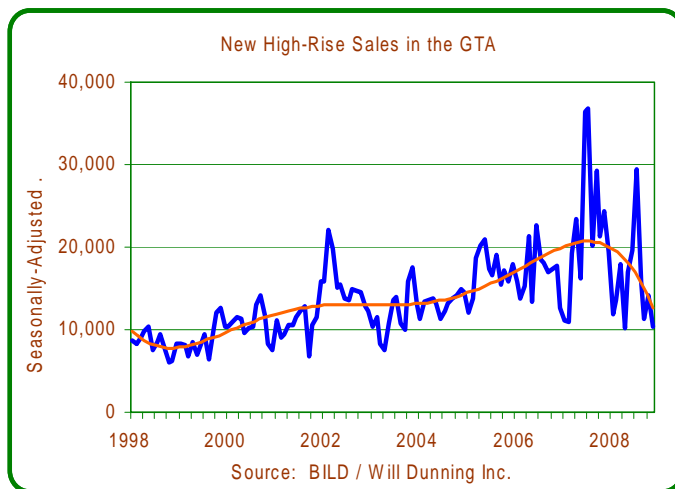
The reduction of new home sales can be attributed to several factors, including increasing supply in the resale market - a larger share of housing demand is being satisfied within the resale market. Thus, while new home sales were falling very sharply during the summer of 2008, resale market activity was much less affected - until very recently - as is shown in the chart to the right.



The key factor in the evolving housing market in the GTA is the shift in economic conditions and expectations about the future economy. The manufacturing sector has weakened sharply during the past three years (about 100,000 jobs have been lost), but this was being offset by growth in service industries, particularly the financial sector and related industries. With the financial market meltdown that began early in September, economic expectations have turned increasingly negative. Consequences of this downshift can be seen in the very sudden negative turn of the resale housing market during October and November, and the further drop of new home sales.

It is possible that the sharp downshift in the new and resale housing markets is an over-reaction and temporary, and that sales activity will rebound in the not-too-distant future – after all, the charts of new and resale activity show many instances of sharp but temporary shifts of activity. However, given that the financial sector is likely to see a contraction, on top of the established contraction in manufacturing, it seems most likely that housing demand has retrenched in consumers' anticipation of a severe economic recession, and that any future rebound of housing demand would be tepid. As is discussed later, forecasts developed by this author suggest that employment is on the verge of a sharp downturn, which can be expected to produce a prolonged housing market recession.

In the high-rise market, sales trends have been distinctly different. Sales increased in 2005/2006 and again in 2007, to a record level (more than 23,000) that would have been unimaginable just a few years earlier. Record sales in 2007 caused starts of condominium apartments to surge in 2008.



The main cause for the surge of high-rise sales is the combination of low interest rates, strong employment growth in service industries, and expanded supplies in the new condominium market. This combination gave young people the means and opportunity to become home owners. There has also been strong interest on the part of investors. Most investors intend to make the apartments available for rental, but some may be motivated by the prospect of short-term capital gains. In addition, there has been an expansion of the empty nester market (sales to older home owners who will sell their family homes), although this is a small part of the high-rise market.

Sales of new condominiums have slowed in 2008, although the 30% reduction for the first 11 months of the year has left the average sales at a still very high rate of almost 17,000. Most recently, high-rise sales have slowed to an average rate of 12,000 during September to November, only about one-half of the 2007 sales rate.

Risks have become elevated in the high-rise market:

- A very large inventory of units is now under construction (about 36,700 condominium apartment units were under construction at the end of November), and these units will become available for occupancy during 2009 and 2010.
- The investor-share is unknown – it may be as high as 60% or as low as 30%. In either event, the additional supply of high end rentals will exceed the demand. Some of the investors will choose to sell, adding to a resale inventory that is already expanding.
- In addition, it is typical for about one-tenth of buyers of new condominiums to sell their apartment after taking possession, because their situations have changed since they initially purchased the unit several years earlier.
- The resale inventory is already expanding in the high-rise market. Data from the Toronto Real Estate Board shows that in November 2008 listings in central Toronto (TREB districts C01 to C15) were about 75% higher than a year earlier. Future completions of condominium apartments will add to the resale inventory. Much more of the demand for condominium apartments will be satisfied in the resale market, further reducing the need for new construction.
- In addition, the economic slowdown can be expected to reduce demand.
- Financing terms and conditions are tightening, and it is likely that some projects with substantial presales will be unable to proceed to construction.

To conclude this section, sales data in the new low-rise and high-rise markets point to a contraction of housing starts in the Greater Toronto Area during 2009. This is based on sales trends that are already emerging. As is discussed in the next section, looking further in to the future, sales of new homes are likely to be depressed for some time to come. The expected result is a severe and prolonged contraction for housing starts in the GTA.

## ***The GTA Housing Outlook***

### ***Employment is the Key***

Experience has convinced this analyst that the key driver of housing demand is job creation. Housing affordability has little impact on the numbers of units sold, although it can alter the mix of sales – the deterioration of housing affordability has been one factor that has caused demand to shift towards less expensive housing types.

In general, changes in employment affect housing demand over long periods of time: after a person gets a job it usually takes several years to get ready to buy – to save for a down-payment and to make various decisions that lead to a home purchase.

That has been the experience of the past decade: employment has expanded almost continuously, which has generated a steady feed of demand into the new homes market.

However, that gradual process probably does not work in reverse – when jobs are lost, consumers' reactions can be very rapid. The contraction in a downturn will be much more rapid than the expansion in during an upturn.

Many factors influence economic trends and the rate of job creation. During the past decade there has been a mix of positive and negative influence that has resulted in continued growth. However, during 2007 and 2008 that mix shifted towards a negative balance; since September the balance has turned very sharply negative.

- The very sharp drop in stock markets around the world – including the Toronto stock market (“TSX”) index, which has dropped from levels above 13,000 to current levels at or below 9,000. Previously, the “wealth effect” from strong stock markets was bolstering economic growth and job creation, by encouraging and supporting spending by businesses and consumers. It is now being seen that the wealth destruction of the past few months is negatively affecting business and consumer confidence, and this can be expected to negatively affect the job market. Lower employment, in turn, will result in weaker housing demand in the future.
- Partially offsetting the meltdown in the stock market are positive effects from a meltdown in commodity prices (including oil and natural gas) and a weaker Canadian dollar (which makes it easier for Canadian companies to sell goods and services to other countries). It remains to be seen whether these two positive factors can offset the negative consequences of the falling stock market. Economic modeling by the author suggests that the weakened stock market will affect the economy much more rapidly and more strongly - employment may fall sharply in the GTA and Ontario during the coming 12 to 18 months.

The housing forecasts that follow are based on a forecast that the GTA will lose about 125,000 to 150,000 jobs during the next 12 to 18 months. Employment would stabilize during the second half of 2010, and then begin to recover. During late 2010 and into 2011 employment would grow at about the same rate as the population, or slightly faster.

### ***Housing Outlook***

The forecast of falling employment is a very strong negative factor for new home sales. On top of this, the new homes market is highly influenced by competition from resale listings – the level of listings is high and can be expected to remain high for some time.

Economic modelling suggests that sales of new low-rise homes might fall essentially to zero. But, we know from experience (in the GTA in the early-and-mid-1990s, and in the US today) that no matter how dire the economic situation, there will always be some new home sales. Thus, the forecasts have been adjusted to an “institutional minimum”, with the result that new home sales are forecast to be more-or-less the same as in the early-to-mid 1990s.

The stabilization of employment during 2010 would set the stage for a housing market recovery. However, given that it takes time for new jobs to translate into housing demand, the forecast scenario suggests that even in 2011 there would be little improvement in housing demand.

Based on recent sales of low-rise homes and the forecast, starts of low-rise homes are projected to begin falling within the next few months. Even though sales are expected to stabilize during 2010 and 2011, starts would continue to fall into 2011, because starts lag behind sales. At the bottom in 2011, low-rise starts will be about three-quarters below the 2002 peak, and more than one-half lower than in 2008.

For high-rises, the sales and production cycles are longer and therefore the slowing of high rise starts is expected to be more gradual. Overall, the drop for high-rise starts is projected to be even larger than for low-rises, and longer lasting: in addition to the economic downturn the high-rise sector will have to adjust for the consequences of severe over-production. This also occurred during the downturn of the early 1990s. In 2011, high-rise starts would be more than 80% lower than in 2008, and more than 70% lower than the average for 2003 to 2008 (when starts averaged about 15,000 units per year).

In the rental sector, starts averaged over 1,500 units per year during 2002 to 2008. The forecast average of about 1,000 units per year during 2009 to 2011 is a reduction of about one-third.

Comparing to the previous recessionary period in the first half of the 1990s:

- For 2009 to 2011, starts of low-rise home ownership dwellings are projected to be slightly lower.
- Starts of condominium apartments, while forecast to fall sharply, would not be as low as in the earlier recession – during that period there was a payback for an even greater excess of investment.
- Starts of rentals will be sharply lower, as there was a significant social housing building program in the early 1990s, which is quite unlikely to be repeated this time around.

- Combining the forecasts for home ownership and rental starts, total housing starts are forecast to be even lower during the coming three years than they were during the early 1990s.

Forecasts developed earlier - during the spring and summer of 2008 - were also projecting slowdowns in the economy and housing market. During the past few months, the forecasts have become even more pessimistic.

Historic data and the forecasts are shown in the next table.

Annual	New Home Sales			Housing Starts			
	Low-Rise	High-Rise	Total New Home Sales	Low-Rise Home Ownership	High-Rise Home Ownership	Rentals	Total Housing Starts
1990	6,697	1,483	8,180	10,360	6,059	4,838	21,257
1991	10,370	2,206	12,576	12,978	2,132	6,656	21,766
1992	7,752	2,339	10,091	12,450	716	10,164	23,330
1993	8,554	2,743	11,297	11,975	798	4,724	17,497
1994	11,930	4,990	16,920	16,348	1,332	2,665	20,345
1995	9,087	3,770	12,857	12,370	3,478	1,957	17,805
1996	15,525	4,986	20,511	17,721	2,401	937	21,059
1997	18,985	7,811	26,796	25,382	3,184	252	28,818
1998	19,525	8,495	28,020	23,886	4,777	179	28,842
1999	27,848	9,149	36,997	28,908	9,119	496	38,523
2000	30,040	11,052	41,092	32,021	10,108	403	42,532
2001	31,233	11,025	42,258	30,501	13,141	978	44,620
2002	38,534	15,791	54,325	37,575	9,168	1,531	48,274
2003	30,931	12,234	43,165	34,506	13,482	2,023	50,207
2004	27,689	13,600	41,289	31,949	13,041	1,403	46,393
2005	24,504	17,704	42,208	28,875	14,800	1,858	45,533
2006	21,772	17,567	39,339	25,150	13,824	1,637	40,611
2007	21,507	23,437	44,944	25,476	9,615	1,139	36,230
<b>Forecasts</b>							
2008	12,829	15,611	28,441	20,264	23,223	1,334	44,820
2009	7,476	5,775	13,251	10,080	18,190	1,081	29,351
2010	7,625	4,121	11,746	8,713	6,460	1,077	16,250
2011	7,778	4,197	11,974	8,886	4,014	922	13,821
<b>% Change</b>							
2008	-40.5%	-32.9%	-36.5%	-20.5%	141.5%	17.1%	23.7%
2009	-41.7%	-63.0%	-53.4%	-50.3%	-21.7%	-18.9%	-34.5%
2010	2.0%	-28.6%	-11.4%	-13.6%	-64.5%	-0.4%	-44.6%
2011	2.0%	1.8%	1.9%	2.0%	-37.9%	-14.4%	-14.9%

Source: Will Dunning Inc., using data from Statistics Canada, Canada Mortgage and Housing Corporation, the Toronto Real Estate Board, and the Building Industry and Land Development Association.

For the analysis of economic and fiscal impacts that is developed in the next section, the forecast for low-rise ownership starts, and for rental units, are disaggregated into the three types of single-detached, semi-detached, and row units. The results are shown in the next table. These forecast show total housing starts in 2011 being 69% lower than in 2008. Apartment starts would fall by the most (80%) while the least reduction would be for single-detached units (down by 55%).

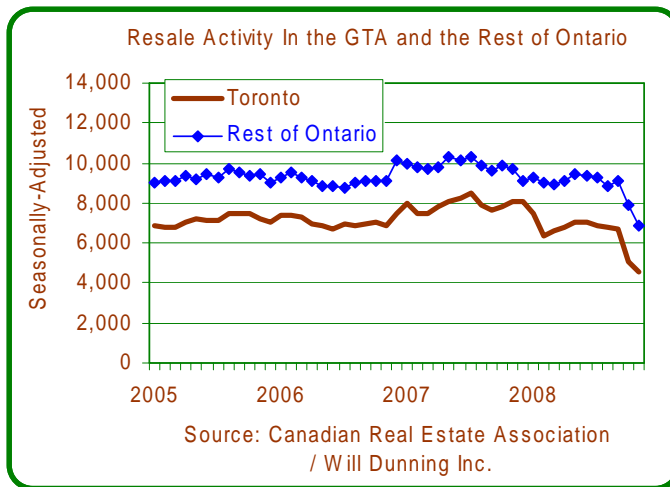
**Table 4**  
**Forecast of Housing Starts by Type of Dwelling – Greater Toronto Area**

Year	Single-Detached	Semi-Detached	Row	Apartment	Total
2004	21,610	3,668	6,748	14,367	46,393
2005	18,435	3,435	7,171	16,492	45,533
2006	16,290	2,996	5,872	15,453	40,611
2007	16,639	2,920	5,926	10,745	36,230
2008	12,729	2,347	5,244	24,500	44,820
2009	6,538	1,176	2,387	19,250	29,351
2010	5,664	1,018	2,068	7,500	16,250
2011	5,710	1,027	2,085	5,000	13,821

Source: Will Dunning Inc., using data from Statistics Canada, Canada Mortgage and Housing Corporation, the Toronto Real Estate Board, and the Building Industry and Land Development Association.

**Implications for Ontario**

Unfortunately data on new home sales are not available for all of Ontario. The available data on housing starts does not provide any basis for evaluating how housing demand is responding to the changing economic environment. However, data is available for resale market transactions. This data indicates that during the last two months of available data (October and November), demand for resale homes has fallen considerably, but not by as much as in the Greater Toronto Area. This can be illustrated by comparing recent data to sales in the first nine months of 2008 (all data is seasonally-adjusted):



- In October, resales in the GTA were down by 26%; for Ontario the reduction was 19%.
- In November, resales in the GTA were down by 34%; for Ontario the reduction was 29%.
- For Ontario, sales fell by slightly less than for the GTA in both months (73% as much in October and 85% as much in November).
- Combining the two months, sales fell by 30% in the GTA and 24% in Ontario. Resales in Ontario fell by 80% as much as in the GTA.

This resale market data suggests that housing starts will fall in the rest of Ontario, but not by as much as in the GTA. Applying the factor from the resale data - Ontario activity falling by 80% as much as in the GTA - to starts of new housing, the forecasts (shown in

the next table) suggest that by 2011 total housing starts in Ontario might be 55% lower than in 2008.

<i>Year</i>	<i>Single-Detached</i>	<i>Semi-Detached</i>	<i>Row</i>	<i>Apartment</i>	<i>Total</i>
2004	48,929	5,172	12,824	18,189	85,114
2005	41,682	4,673	12,537	19,903	78,795
2006	38,309	4,393	11,046	19,669	73,417
2007	37,910	4,284	11,255	14,674	68,123
2008 (1)	31,850	3,000	10,600	29,000	74,450
2009	19,457	1,802	5,980	24,029	51,268
2010	17,375	1,609	5,340	12,295	36,619
2011	17,489	1,620	5,375	9,016	33,500

Source: Will Dunning Inc., using data from Statistics Canada, Canada Mortgage and Housing Corporation, the Toronto Real Estate Board, and the Building Industry and Land Development Association.  
Note: (1) for 2008, CMHC forecast is shown (as published in the Housing Market Outlook Canada Edition for Fourth Quarter 2008 (released October 30). Subsequent forecasts are by the author.

## ***Economic and Fiscal Impacts of Residential Construction***

This section develops estimates of the impacts of residential construction in Ontario and the Greater Toronto Area, in terms of:

- Economic impacts – jobs created in construction and in industries that supply goods and services to the construction process, and the associated wages.
- Fiscal impacts – revenues received by the federal and provincial governments, in the form of income taxes, sales taxes, and premiums for Canada Pension Plan and Employment Insurance. Municipal revenues are not estimated, although they are very substantial, in terms of fees and charges paid by home builders, as well as future realty taxes that will be paid by the property owners.

The estimates developed here cover the “direct” impacts within the construction industry and the “indirect” impacts within supplying industries. The estimates do not include any spin-off impacts (which would result as the employees in those industries spend their wages and create further employment throughout the economy)<sup>3</sup>.

Furthermore, the estimates do not include spending that occurs prior to the construction process (such as installation of water and sewer services or roads) or after the completion of construction (such as furniture purchased by the new occupants).

### ***Economic Impacts***

During 2004 to 2007, housing starts fell in Ontario, from 85,114 units in 2004 to 68,123 units in 2007. However, due to rises in construction costs, the total value of new residential construction in Ontario was relatively flat in actual dollar terms, at close to \$14 billion per year. Once the actual dollar figures are adjusted for inflation, the “constant dollar” value of construction fell by 12% during 2004 to 2007. In consequence, the total number of jobs generated by construction fell each year. As is shown in the table below, job creation peaked

#### ***The Methodology for Estimating Employment Impacts***

*The employment estimates are developed based on Statistics Canada “employment multipliers”: as of 2005, each \$1 million dollars of residential construction results in 5.87 person year of direct employment in the construction industry and 4.89 person years in supplying industries. The combined total impact is 10.76 person years per \$1 million of construction.*

*Data on residential construction expenditures is obtained from Statistics Canada building permit data. The data is converted to 2005 dollars using deflators obtained from Statistics Canada.*

*Complete data for all of the required data elements is available for the years up to 2007. For 2008 (and for the later estimates of forecast impacts), estimates of construction spending (in 2005 dollars) are developed using forecasts of housing starts data by dwelling type, combined with construction costs by dwelling type.*

<sup>3</sup> Some studies include estimates of spin-off impacts (also known as “induced employment” or “multiplier effects”). Because of a lack of general agreement on how spin-off effects are to be calculated and what assumptions are to be used, estimates of spin-off impacts can vary widely. Therefore, this study, and many other similar studies, focuses on the direct and indirect impacts, for which methodologies and assumptions are clear and consistent. In reviewing studies of economic and fiscal impacts, readers are advised to focus on the direct and indirect impacts and to view cautiously any estimates of spin-offs.

in 2004 at about 158,000<sup>4</sup> person years and fell to about 139,000 in 2007, a reduction of 12%.

Applying the average wage rates<sup>5</sup> for each year from 2004 to 2007, total wages are estimated. As is shown, the total wages that result from new housing construction in Ontario are estimated at \$6.94 billion in 2004, falling to \$6.64 billion in 2007, a 4.4% drop.

**Table 6**  
***Economic Impacts of New Residential Construction in Ontario***

Year	Housing Starts (Units)	Value of Construction (\$ Billions) (1)	Jobs Created (Person Years)			Wages (\$ Billions)
			Direct	Indirect	Total	
2004	85,114	\$14.1	86,120	71,726	157,846	\$6.94
2005	78,795	\$14.0	81,962	68,263	150,225	\$6.87
2006	73,417	\$14.0	78,554	65,424	143,977	\$6.69
2007	68,123	\$14.0	75,660	63,014	138,673	\$6.64

Source: estimates by Will Dunning Inc, using data from Statistics Canada and Canada Mortgage and Housing Corporation  
 Note: (1) value of construction as reported in building permits issued during the year.

The Greater Toronto Area received about 55% of Ontario's housing starts during 2004 to 2007, although its share was below average for single-detached homes (about 45%) and above average for semi-detached homes (about 70%) and apartments (close to 80%). However, the average value of construction per unit was higher in the GTA than in all of Ontario. In consequence, the GTA was responsible for about 58% of the province's total spending on construction of new homes, as well as 58% of the jobs created and the wages generated.

In 2007, while housing starts fell in the GTA, the value of building permits increased (reflecting builders' intentions to start more dwellings in 2008). Consequently, the GTA, in contrast to all of Ontario, saw an increase in the estimated economic impact for 2007. For 2007, the GTA received 61% of the building permit values in Ontario and therefore a similar share for the estimated job creation and wages.

<sup>4</sup> Estimates of economic and fiscal impacts developed here differ from those generated by this consultant for other organizations. Those earlier estimates were based on prior Statistics Canada estimates of employment multipliers. More recent multipliers have become available. Future updates for those other organizations will also use the newer multipliers, and therefore estimates of impacts will be revised.

<sup>5</sup> The average weekly wage rates, for Ontario, for full-time employees in construction, were applied to the estimates of employment in residential construction; for the indirect employment, the average wages for all industries were used. Not all of the jobs created are located in Ontario. A simplifying assumption in this analysis applies average wages for Ontario to the total job creation figures. Similarly, not all tax revenues are generated within Ontario – the analysis of fiscal impacts calculates government revenues based on the tax rates (and wage rates) that apply for Ontario.

**Table 7**  
**Economic Impacts of New Residential Construction**  
**in the Greater Toronto Area**

Year	Housing Starts (Units)	Value of Construction (\$ Billions) (1)	Jobs Created (Person Years)			Wages (\$ Billions)
			Direct	Indirect	Total	
2004	46,393	\$8.1	49,372	41,119	90,491	\$3,981
2005	45,533	\$8.1	47,275	39,374	86,649	\$3,962
2006	40,611	\$7.6	42,759	35,612	78,371	\$3,642
2007	36,230	\$8.5	46,109	38,402	84,511	\$4,046

Source: estimates by Will Dunning Inc, using data from Statistics Canada and Canada Mortgage and Housing Corporation  
Note: (1) value of construction as reported in building permits issued during the year.

### **Fiscal Impacts**

Residential construction generates revenues for the federal and provincial governments through two main channels:

- Revenues related to labour income, including income taxes as well premiums collected by the federal government for Canada Pension Plan (“CPP”) and Employment Insurance (“EI”), and by the provincial Workplace Safety and Insurance Board (“WSIB”).
- Sales taxes on the value of homes (the federal Goods and Services Tax – “GST”) and on the value of materials used in construction (Provincial Sales Tax – “PST”).
- The estimates do not include any taxes generated from corporate profits.

The table below summarizes the estimates of federal and provincial revenues due to construction of new housing in Ontario. The reduction in housing starts, which led to lower employment and total wages, has caused total revenues to fall. As is illustrated in the table, estimated total revenues from the included sources fell from \$4.20 billion in 2004 to \$3.94 billion in 2007 (a reduction of 6.3%). Federal revenues fell by 8.9%, to \$2.53 billion in 2007. Part of this reduction was due to the drop in the GST rate. In addition, federal income taxes fell by 9.4%, more than the 4.4% reduction in total wages, due to reduction in tax rates. Provincial revenues fell slightly overall (by 1.3%), to \$1.41 billion in 2007. While provincial revenues from WSIB fell sharply during 2004 to 2007 (by an estimated 13.4%), the introduction of the provincial health care tax provided a partial offset.

**Table 8**  
**Fiscal Impacts of New Residential Construction in Ontario, in \$ Millions (1)**

Year	Income Tax			CPP	EI	WSIB (2)	GST (3)	PST	Total Revenues
	Federal	Provincial	Total						
2004	\$926	\$370	\$1,296	\$578	\$293	\$499	\$976	\$563	\$4,205
2005	\$932	\$440	\$1,371	\$559	\$274	\$465	\$968	\$558	\$4,196
2006	\$867	\$426	\$1,293	\$550	\$252	\$453	\$971	\$560	\$4,079
2007	\$839	\$423	\$1,262	\$552	\$240	\$432	\$895	\$559	\$3,939

Source: estimates by Will Dunning Inc, using data from Statistics Canada  
Notes: (1) Fiscal impacts are calculated using the applicable annual rates, with the exception of WSIB premiums for indirect employment (see Note 2).  
(2) For indirect employment, WSIB is calculated using an assumed premium rate of \$3.134 per \$100. This is based on a weighted average of the 2007 premium rates for 24 industries. For direct employment, the annual premium rates for "Homebuilding" are used.  
(3) Calculation of GST revenue assumes that all homes qualify for full GST rebates. To the extent that homes do not receive full rebates, GST revenues will be higher than estimated

In the GTA reduced residential construction activity led to lower government revenues during 2004 to 2006. Total estimated revenues from the included sources fell from \$2.41 billion in 2004 to \$2.22 billion in 2006 (a reduction of 7.9%). For 2007, estimated revenues increased to about the same level as in 2004.

**Table 9**  
**Fiscal Impacts of New Residential Construction in the Greater Toronto Area, in \$ Millions (1)**

Year	Income Tax			CPP	EI	WSIB (2)	GST (3)	PST	Total Revenues
	Federal	Provincial	Total						
2004	\$531	\$212	\$743	\$331	\$168	\$286	\$560	\$323	\$2,411
2005	\$537	\$254	\$698	\$323	\$158	\$268	\$558	\$322	\$2,328
2006	\$472	\$232	\$704	\$299	\$137	\$247	\$528	\$305	\$2,220
2007	\$512	\$258	\$769	\$336	\$146	\$263	\$545	\$341	\$2,401

Source: estimates by Will Dunning Inc, using data from Statistics Canada  
Notes: (1) Fiscal impacts are calculated using the applicable annual rates, with the exception of WSIB premiums for indirect employment (see Note 2).  
(2) For indirect employment, WSIB is calculated using an assumed premium rate of \$3.134 per \$100. This is based on a weighted average of the 2007 premium rates for 24 industries. For direct employment, the annual premium rates for "Homebuilding" are used.  
(3) Calculation of GST revenue assumes that all homes qualify for full GST rebates. To the extent that homes do not receive full rebates, GST revenues will be higher than estimated

### **Projected Impacts for the Greater Toronto Area**

The table below illustrates that the increased volume of construction in 2008 is expected to generate a higher level of job creation compared to 2007. In 2009, the sharp reduction of starts would result in a 37% drop in employment generation. The reduction in employment would be slightly more steep than the drop in starts (35%). This occurs because there would be a shift in market share away from the most expensive housing form (single-detached homes) towards the least expensive form (apartments). Therefore, on average the amount of construction per unit would fall slightly, and the employment impact would drop from 2.09 person years per unit in 2008 to 2.00 person years per unit in 2009.

For 2008, it is estimated that construction of new homes will generate roughly the same number of jobs as in 2004. After 2008, the employment impacts fall far below the amounts for 2004 to 2008. The projections of associated wages (in 2007 dollars) fall by similar amounts.

Comparing the projected employment impact for 2011 (just over 31,000 person years) to the average impacts for 2004 to 2008 (about 86,700 person years), the 2011 projected figure would 64% lower.

Year	Jobs Created (Person Years)			Wages (\$ Billions) (1)
	Direct	Indirect	Total	
2004	49,372	41,119	90,491	\$3.98
2005	47,275	39,374	86,649	\$3.96
2006	42,759	35,612	78,371	\$3.64
2007	46,109	38,402	84,511	\$4.05
2008	51,052	42,519	93,571	\$4.48
2009	32,032	26,678	58,710	\$2.81
2010	19,306	16,079	35,385	\$1.69
2011	17,106	14,247	31,354	\$1.50

Source: estimates by Will Dunning Inc, using data from Statistics Canada and Canada Mortgage and Housing Corporation.  
 Note: (1) for 2008 and beyond, wages are calculated in 2007 dollars.

The reduction in construction activity, employment, and wages, would cause federal and provincial revenues to fall by 37% (almost \$1 billion) in 2009, with further reductions of 40% (over \$600 million) in 2010, and 11% (over \$100 million) in 2011. In 2011, projected revenues from the included sources would be about \$850 million, two-thirds below the 2008 figure. Comparing to the average total revenues for 2004 to 2008 (\$2.39 billion per year), the 2011 projected figure would 64% lower.

Year	Income Tax			CPP	EI	WSIB	GST	PST	Total Revenues
	Federal	Provincial	Total						
2004	\$531	\$212	\$743	\$331	\$168	\$286	\$560	\$323	\$2,411
2005	\$537	\$254	\$698	\$323	\$158	\$268	\$558	\$322	\$2,328
2006	\$472	\$232	\$704	\$299	\$137	\$247	\$528	\$305	\$2,220
2007	\$512	\$258	\$769	\$336	\$146	\$263	\$545	\$341	\$2,401
2008	\$566	\$285	\$852	\$372	\$162	\$291	\$503	\$377	\$2,557
2009	\$355	\$179	\$534	\$234	\$101	\$183	\$316	\$237	\$1,605
2010	\$214	\$108	\$322	\$141	\$61	\$110	\$190	\$143	\$967
2011	\$190	\$96	\$285	\$125	\$54	\$98	\$169	\$126	\$857

Source: estimates by Will Dunning Inc, using data from Statistics Canada  
 Notes: (1) For 2008 and beyond, fiscal impacts are in 2007 dollars, and calculated using 2007 applicable annual rates, with exception of GST which is calculated at the 2008 rate.

### **Implications for Ontario**

Reduced housing starts in Ontario will also result in lower employment levels. By 2011, the 67,600 person years of employment generated by construction of new homes would be 54% lower than the average for 2004 to 2008 (about 146,000 person years per year).

Year	Jobs Created (Person Years)			Wages (\$ Billions) (1)
	Direct	Indirect	Total	
2004	86,120	71,726	157,846	\$6.95
2005	81,962	68,263	150,225	\$6.87
2006	78,554	65,424	143,977	\$6.69
2007	75,660	63,014	138,673	\$6.64
2008	76,605	63,801	140,407	\$6.72
2009	51,199	42,641	93,840	\$4.49
2010	38,723	32,250	70,973	\$3.40
2011	36,870	30,708	67,578	\$3.24

Source: estimates by Will Dunning Inc, using data from Statistics Canada and Canada Mortgage and Housing Corporation.  
Note: (1) for 2008 and beyond, wages are calculated in 2007 dollars.

Correspondingly, federal and provincial government revenues would be reduced. By 2011, the revenues of about \$1.84 billion would be 55% lower than the average for 2004 to 2008 (\$4.05 billion).

Year	Income Tax			CPP	EI	WSIB	GST	PST	Total Revenues
	Federal	Provincial	Total						
2004	\$926	\$370	\$1,296	\$578	\$293	\$499	\$976	\$563	\$4,205
2005	\$932	\$440	\$1,371	\$559	\$274	\$465	\$968	\$558	\$4,196
2006	\$867	\$426	\$1,293	\$550	\$252	\$453	\$971	\$560	\$4,079
2007	\$839	\$423	\$1,262	\$552	\$240	\$432	\$895	\$559	\$3,939
2008	\$850	\$428	\$1,278	\$559	\$243	\$437	\$755	\$566	\$3,838
2009	\$568	\$286	\$854	\$373	\$162	\$292	\$504	\$378	\$2,565
2010	\$430	\$216	\$646	\$282	\$123	\$221	\$382	\$286	\$1,940
2011	\$409	\$206	\$615	\$269	\$117	\$210	\$359	\$269	\$1,839

Source: estimates by Will Dunning Inc, using data from Statistics Canada  
Notes: (1) For 2008 and beyond, fiscal impacts are in 2007 dollars, and calculated using 2007 applicable annual rates, with exception of GST which is calculated at the 2008 rate.

## ***Impacts of Improved Housing Affordability***

The previous section provided forecasts of housing starts activity in the Greater Toronto Area and Ontario for 2009 to 2011. While these forecasts are sharply negative, they are consistent with the experience of the prior recessionary period of the early 1990s – these forecasts do appear to be realistic in light of evolving circumstances. These forecasts imply that related employment will also fall significantly, and there would be sharp reductions in revenues for the federal and provincial governments. This section explores the possible consequences of stimulating housing demand through improving housing affordability (reducing prices of new homes).

### ***Options for Improving Housing Affordability***

Several options for potentially reducing prices of new homes are discussed below. The options are:

- Financially assisting home buyers.
- Reducing the effective rate of Goods and Services Tax (“GST”) on new homes by adjusting the price thresholds for the new homes rebate.
- Reducing municipal fees and charges.
- Streamlining municipal approvals processes to shorten the time horizon for approvals and to reduce the cost of participating in the process.
- Increasing the efficiency of construction.

#### *Financially Assisting Home Buyers*

Options for providing financial assistance to buyers of new homes include:

- Home buyer grants, similar to those offered during the early 1980s: the federal Canadian Home Ownership Stimulation Program (\$3,000) and the Ontario Renter Buy program (\$5,000 in assistance).
- Making new homes eligible for the rebates available for energy retrofits of existing homes, which can total up to \$10,000 per unit. The rebates are available for energy conservation features such as ground-source heat pumps, energy efficient furnaces and water heaters, heat recovery ventilators, and insulation.

#### *Adjusting GST Rebate Thresholds*

An earlier study for RESCON (“The Rapid Rise in GST Payable on New Home In Canada”, completed in December 2007) described the application of the GST to new homes. In particular, it pointed out that thresholds for the new homes rebate have not been increased since the inception of the GST in 2001. As housing prices increased over time, more and more homes had prices exceeding the thresholds for the rebate and therefore the effective (or net) GST tax rate increased. Even with the reduction of the GST rate to 5% there has been a very rapid rise in GST paid. The study estimated that in 1991 the average net GST paid per new home (single-detached and semi-detached units) was \$9,880 (after the rebate); in the first nine months of 2007, and at the future

GST rate of 5%, the net tax would be \$16,521, or an increase of 67%. If the GST thresholds had been indexed in line with house price growth (as had been promised when the GST was introduced), the net GST paid in 2007 should have been \$13,650, or about \$2,900 lower.

### *Reducing Municipal Fees and Charges*

The Building Industry and Land Development Association (“BILD”) has estimated (in a May 2008 report “Over the Top - The Impact of Development Charges on New Homebuyers”) that during 2001 to the spring of 2008, average development charges within the Greater Toronto Area increased by 75.1%. This was almost triple the overall inflation rate (26.6%) over the same period. BILD has estimated that development charges for new homes in the GTA average approximately \$30,000 as of the spring of 2008. Taking these estimates from BILD, it can be calculated that if development charges had increased at the overall inflation rate (26.6%), in the spring of 2008 development charges would have averaged about \$21,700 per unit, or \$8,300 less.

### *Streamlining Municipal Approvals Processes*

Approvals processes for new housing developments have become increasingly complicated and the time required to navigate the process is prolonged. Both the complexity and duration of the process impose costs on builders. Selling prices must allow the builders to recoup these costs, otherwise the developments would not occur. Simplifying and shortening the process would reduce the development costs. In the highly competitive housing market, consumers would benefit from the reduced costs.

### *Increasing the Efficiency of Construction*

The building industry continues to improve its efficiency, through improved scheduling and developing “best practices”. Yet, there is an opportunity to achieve greater efficiencies by utilizing mass-production manufacturing techniques, such as “panelization” (factory-building structural components with pre-installed electrical and plumbing capacity). Moving the production indoors would, in addition to increasing efficiency, improve the comfort of construction labour, and make it easier for the industry to attract and retain new skilled labour.

### ***Impacts on Housing Demand***

Estimates of impacts on costs are available for three of the options discussed above:

- Up to \$10,000 per unit for rebates related to energy efficiency.
- An average of \$2,900 per unit through adjusting the thresholds for GST rebates.
- \$8,300 per unit for reducing development charges, based on scaling back prior increases to the overall rate of inflation.
- Potential savings from these three options total about \$21,000 per unit.

- Additional savings could be generated through streamlining the approvals process and improving construction efficiency.

Based on this review, it appears highly possible that prices for new homes could be reduced by as much as \$30,000 per unit.

As was noted earlier, experience has shown that changes in affordability have relatively little impact on housing demand in terms of numbers of units sold (or constructed). Housing demand is primarily driven by changes in employment. The forecasts developed above indicate that while employment may start to recover during the second half of 2010, the impact on housing demand will be negligible in 2011 – a more meaningful recovery of housing demand is expected to develop during 2012.

However, affordability has some impact on housing demand: improved housing affordability would result in an increase in the numbers of units built; it would also cause demand to shift away from the least expensive housing options towards more expensive options. This would mean that the average amount of construction per unit would increase, as would the employment generated by unit started and the government revenues generated per unit.

The following table summarizes the results from a set of simulations that estimate the impacts on Ontario housing starts that would result from reductions in house prices (with the reductions ranging from \$5,000 to \$30,000). Because there is a delay between changes in prices and changes in housing starts, the estimates show the changes that would occur in the second year (for example, if prices were reduced at the beginning of 2009, the increases would occur in 2010). As the table shows, a \$5,000 price reduction would result in a 2% increase in housing starts and a similar increase in the employment impact. For the largest amount of price reduction that is considered (\$30,000), the number of units started would increase by 14%. The construction value would increase by 16%, and employment creation and government revenues would be increased by similar amounts.

**Table 14**  
**Change in Ontario Housing Starts in 2nd Year Versus Base Case**  
**Resulting from House Price Reductions of \$5,000 to \$30,000**

<i>Amount of Reduction</i>	<i>Low-Rise</i>	<i>Apartment</i>	<i>Total</i>	<i>Construction Value</i>
\$5,000	3%	0%	2%	2%
\$10,000	7%	0%	4%	5%
\$15,000	10%	0%	7%	8%
\$20,000	14%	0%	9%	10%
\$25,000	18%	0%	12%	13%
\$30,000	22%	-1%	14%	16%

Source: Estimates by Will Dunning Inc.

Most of the options discussed above would take some time to implement. Realistically, the prospects of using these options to boost housing demand in 2009 are limited. However, the sooner work is started on addressing the options, the sooner improved housing affordability will positively affect housing demand, and thereby contribute to an earlier and stronger economic recovery.