

Consequences of Government- Imposed Costs on the New Housing Market

Will Dunning

Phone: 416-236-5115

Email: wdunning@sympatico.ca

Web-site: www.wdunning.com

Study Outline

- Direct costs - current level and recent trends
- Indirect costs
- Mechanism for pass-through of GICs
- Housing affordability has created space for GICs
- Estimates of consequences
 - Housing starts
 - Jobs, wages & income tax revenues

Direct Costs

- CMHC study as of 2006 – about 17% for SFD
- Subsequent increases due to:
 - GST bracket creep
 - HST
 - DCs
- Likely now approaching 20%

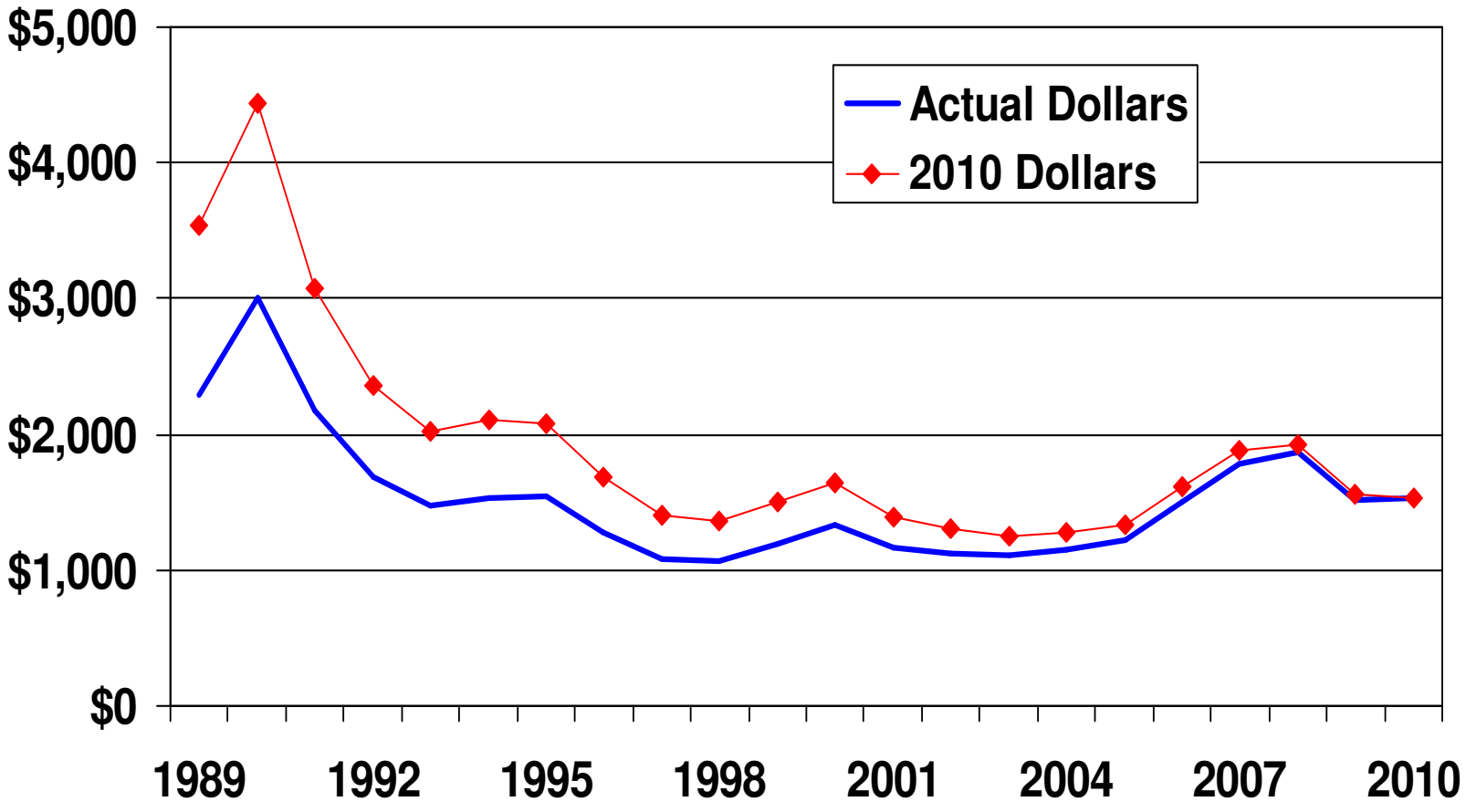
Indirect Costs

- Complying with standards & participating in processes
- Need for more information
- Total direct + indirect in the range of 25-30%

Mechanism for Pass-Through

- Prices must rise sufficiently in the resale market to permit cost recovery
- Rapid rise in land costs
- Impact not just on new homes

Affordability – Monthly Interest Cost for Average SFD Home



Source: CMHC / Will Dunning Inc.

***The Estimates: Impacts of Changes in House Prices,
2011 to 2013 (Annual Averages)***

<i>Scenario</i>	<i>Baseline</i>	<i>1st Scenario – House Prices 5% Lower</i>	<i>2nd Scenario – House Prices 10% Lower</i>	<i>3rd Scenario – House Prices 15% Lower</i>	<i>4th Scenario – House Prices 20% Lower</i>	<i>5th Scenario – House Prices 5% Higher</i>	<i>6th Scenario – House Prices 10% Higher</i>
Housing Starts	37,096	39,040	41,776	45,647	51,013	35,628	34,351
Difference vs Baseline		1,944	4,681	8,552	13,917	-1,468	-2,745
Jobs Created (1)	52,700	55,800	60,100	66,300	75,000	50,600	48,600
Difference vs Baseline		3,100	7,400	13,600	22,300	-2,100	-4,100
Wages Generated (2)	\$2,990	\$3,160	\$3,400	\$3,750	\$4,250	\$2,860	\$2,750
Difference vs Baseline		\$170	\$410	\$760	\$1,260	-\$130	-\$240
Federal and Provincial Revenues (2,3)	\$910	\$960	\$1,040	\$1,130	\$1,300	\$870	\$850
Difference vs Baseline		\$50	\$130	\$220	\$390	-\$40	-\$60

Source: Estimates by Will Dunning Inc.

Notes: (1) Full time equivalent jobs; (2) Wages and tax revenues are in millions of 2010 dollars; (3) Revenues from personal income tax plus CPP and EI premiums

Implications

- GIC's impact all home-buyers – very substantial impact on affordability
- Current model means lack of accountability for costs
- Time to examine funding paradigm
- On-going need for cost benefit analysis of new direct and indirect costs