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Lowering the First Rung on the Housing Ladder

A recent report by Ontario's Municipal Property Assessment Corporation (MPAC) highlights the scarcity of homes under $500,000 in Ontario. In 2013, 74% of residential properties had a value below this threshold. Today, just 19% of homes are valued below $500,000. While this situation varies from province to province, it highlights the significant challenges faced by first-time home buyers who find the first rung of the property ladder is nearly unreachable.

Most urban centers would benefit by encouraging lower cost paths to home ownership. One avenue for this is building properties on leased land. In certain areas of Vancouver, we already see this practice, often on First Nations or university-owned lands. Leased land provides two primary paths to homeownership: one involves placing mobile or manufactured housing on the leased property, while the other entails constructing permanent homes on the leased land

LINK TO ARTICLE

More than 50 years ago, manufactured housing made up as much as 6% of Canadian housing completions. Today, it represents less than 1%. In the US, supporting the availability of manufactured housing is a key component of the administration's effort to ease the burden of housing costs. Most of these initiatives focus on improving mortgage financing for these homes through housing finance agencies Fannie Mae and Freddie Mac. Currently, Americans must rely on personal property financing (chattel lending) rather than conventional mortgages.

In Canada, we've had a mortgage insurance product for these loan types for some time. The Chattel Loan Insurance Program (CLIP) was first launched by CMHC in 1988 as a 5-year pilot program. However, CMHC has never actively promoted the program, leading to a lack of awareness among lenders. Moreover, consumer preference for traditional stick-built housing and resistance from local communities to mobile home park developments have further hindered the adoption of the program.

Although the eligible amortization period can extend up to 25 years, some provinces have not allowed longer term leases, making it challenging to finance structures on leased land, whether stick-built or manufactured. Even with an insured mortgage product, securing financing for manufactured homes can be difficult. Financial institutions often lack understanding of these structures, and the constraints on amortization period restrict the type of homebuyer. Consequently, the market has primarily targeted retirees seeking to downsize from larger family homes to smaller units. However, with appropriate financing options, these properties could also appeal to first-time buyers.

Building permanent homes on leased land is a second avenue to reducing home ownership costs. Leased land communities are typically located close to small urban centres. The design ranges from townhouses to single family dwellings, and from traditionally built to manufactured. There are some larger institutional groups in this sector, including Parkbridge, a leading Canadian developer and operator of 106 residential and recreational communities across the country. CAPREIT, a Canadian real estate investment trust, also manages leased land communities but is not a developer.

A mortgage insurance product for leased land structures would help to create another avenue for first time buyers to enter the market. In the Greater Toronto region, this product would work in surrounding areas but would require a managed development of some land currently held in the Greenbelt. Frank Clayton and Maaha Nomani of Toronto Metropolitan University's Centre for Urban Research and Land Development note, "There is strong policy support for removing lands from the Greenbelt if they satisfy one or both criteria: the land surrounds a commuter transit station (GO train) or the land can be readily serviced and made available quickly for residential development. The value uplift from the removal of land should be subjected to a land value tax, with the proceeds used to fund infrastructure, including transit and affordable housing."

Some city councils – like Hamilton's – may be opposed to these kinds of developments, but forgoing them risks straining the social and economic viability of the community. As a Hamilton housing report by Smart Prosperity Institute states: "With an aging population, the region must attract and retain experienced workers to replace those retiring. It will need healthcare workers to care for an aging population and education workers to ensure Hamilton is a viable option for families with children."

The federal government can play a major role in delivering this kind of housing. It needs to do three main things:

1. Relaunch the CLIP program to provide training and improve understanding with financial institutions
2. Create a specific NHA MBS (mortgage-backed security) pool for CLIP loans to encourage this kind of financing
3. Provide financing for the development of infrastructure, such as roads and sewers, which could be facilitated through Infrastructure Canada or by earmarking funds in the Apartment Construction Loan Program

Provinces must ensure that any rules related to leased land, such as amortization rules, do not impede this kind of development.

Finally, cities must accept that not all development will involve intensification. Building out can help to create housing options that people want – and can afford.

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Kevin has had a long career in capital markets, housing finance, and public policy. He has worked as an economist for Alberta Treasury, Saskatchewan Policy Secretariat, the Bank of Canada, and the Department of Finance Canada. His work has included tax policy, economic forecasting, as well as monetary policy and debt management. While at the Bank of Canada, he authored two Bank of Canada Review articles on monetary policy tactics. Kevin has worked on a variety of debt programs from treasury bills to domestic and foreign bond issues, and interest rate swaps. He worked on building and managing the federal real return bond program, the Canada Savings Bond program, and built out the bond buyback program and a synthetic foreign funding program – two programs which are still in use today by the federal government. While at CMHC, Kevin managed the market funding program for social housing, built and managed the Canada Mortgage Bonds program, and expanded the products offered under the NHA MBS program. He has worked for several mortgage insurers including CMHC, Canada Guaranty, Triad Guaranty and Genworth. This work encompassed product development and risk management across housing markets in North America, Europe, Asia, Australia, and New Zealand. More recently he has had senior management roles with residential lenders managing underwriting, risk, product development, capital markets, and strategic planning.

Independent Opinion

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