The Future Party Platform

HOUSING AFFORDABILITY

I wanna make it pop, pop, pop, you want it! -NAYEON

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Goals

1. Pop the housing bubble, and make sure it doesn't repeat itself
2. Increase home supply
3. Save household that overspent for their primary residence

Overview of the Problem

The current affordability crisis is undeniable to any observer or more importantly, any Canadian citizen. The main drivers of this crisis have been record increases in the cost of basic necessities, rents, and homes.

There are many arguments offered to explain this rise in prices:

- Higher interest rates by the Bank of Canada
- Supply chain issues due to Covid
- Supply chain diversification cause by changing geopolitics
- A tight labour market (I.e. unemployment being too low)
- Corporate Greed

While all of the above mentioned factors definitely play a role, we at the Future Party see **the root cause of this crisis to be the Real Estate market as a whole.**

A Snapshot of the Symptoms

Over the past 20 years, the real estate market has grown to a concerning level. Here's a sample of the trends:

- It is Canada's biggest "industry" at 12%, construction is another 7%.
- Residential mortgages make up 37% of the banking sector's assets (that figure is 11% in the US). If you include commercial mortgages, this becomes 43%.
- 38% of MPs across **ALL** current political parties are real estate financiers or landlords
- 90% of new real estate is purchased by investors

The simple root cause is that the people's need for shelter has become a financial investment.

The damage can be seen in these simple facts:

- Households owe more than Canada's entire GDP, mostly due to mortgages
- The majority of Canadians, 54%, are living paycheck to paycheck, and carrying more debt
- Mayors can no longer afford their own cities despite their hefty incomes.
- Even well paid young professionals are priced out of the market
- Property taxes make up around 40% or more of most municipalities' budgets
- Municipalities rarely approve new projects out of fear of reducing home values
- Amortizations (mortgage length) are being extended to avoid defaults
- Riskier mortgages, and even interest-only mortgages, are becoming more common

The Solution

Broadly speaking, these are our three strategic shifts in how the real estate market should be handled by the federal government with the ultimate goal of resetting the market to 2019 levels:

1. POP the bubble

This will be the beating heart of our policy, popping the bubble will bring down home and rent costs to reasonable levels. The outline of what we will do is:

   a. Heavily restrict investors
   b. Make mortgages harder to issue
   c. Protect first time buyers who entered the market when it was too high
   d. Temporarily reduce demand due to a 6-12 month immigration pause
      i. **NOTE:** The pause is primarily to help streamline and improve the immigration process, the reduced housing demand is a cherry on top. This also includes **exceptions for students and refugees.**

2. Increase home supply

This will ensure that supply can keep up with demand. It is based on two pillars

   a. Empower municipalities' to encourage more private construction
   b. Have the government build desirable homes directly at a steady rate

3. Make houses a depreciating asset

With the above two steps and the following changes real estate values should better represent economic conditions:

   a. Split property valuations into a predefined formula that combines the market value of land and the depreciating value of constructions on that land
   b. Declaw HOAs ability to enforce aesthetic standards

The Case for Our Approach

Cars and Real Estate serve Similar Roles

If someone was to propose to you a business where you will buy used cars, repaint them, then hold them for a couple years before selling them at a profit, what would cross your mind?

You will almost certainly call them a scammer, after all we all know that cars lose value over time, who would pay more for a used car after 2 years?! Their mechanics and aesthetics wear out with age and use, their once cutting edge features become outdated, new cars are often safer and more fuel efficient, and warranties don't last forever.

The above description fits real estate too, and especially residential housing, yet the business model that is unthinkable for cars is accepted by our society for homes, even though homes serve a more crucial human necessity.

Real Estate is too Attractive of an Investment

Banks and private investors, big or small, who are looking for good investments need not look beyond real estate to give them significant returns for little risk. This has consistently dragged investments away from our businesses both big and small. Why start a new business when you can buy real estate? Why loan to a business looking to grow when you can issue a mortgage? Why invest into improving the productivity of Canadians, when you can just buy real estate?..

Summary

Allowing real estate to become a financial asset has been one of the worst economic outcomes of the past 50 years, and our government's inability to reign in the market in the past 20 years despite it's visible damage to Canadians' quality of life, regardless of which party was in power is inexcusable and must be immediately fixed before it is too late.

Specifics

The above shifts will be achieved through these policies:

1. POP the bubble:
    a. Investor restrictions
        i. Add a system of progressively higher taxes for additional properties
        ii. Increase capital gains taxes on real estate only
    b. Mortgage restrictions
        i. Cap amortization length at 20 years
        ii. Increase stress test requirements to contract rate + 4% or average BoC rate + 2% whichever is higher
        iii. Ban interest only mortgages outright
    c. Reduce/end taxpayer dependent mortgage insurance
    d. Protect first time buyers who paid too much
        i. Get banks to reduce the principal of their mortgages to match new value
    e. Ban politicians who invest in real estate from voting on legislation that affects their investment
        i. That is already the rule for other investment types, real estate just gets an exception currently
        ii. Except residential homes plus one vacation home
    f. Immigration
        i. The pause will lower housing demand especially for rentals, it is a by-product of the immigration policy outlined separately
2. Home supply
    a. Empowering municipalities
        i. Add a 2% sales tax that goes directly to the municipality in exchange for limits on property taxes
        ii. Make federal funding conditional on loosening of zoning laws
        iii. Allowing municipalities to fast track the approval processes
    b. Government involvement
        i. Start in the most overheated markets

- ii. Part of the urban and suburban development strategies outlined separately

3. Depreciating home prices
   a. The exact formula would require an economist's input
      i. The depreciation rate would depend on usable length of a home
      ii. To reduce speculation the land value would be based on ~2 years of data
   b. Declaw HOAs
      i. They can no longer enforce architecture and architectural standards

Contingencies

We are aware that our plan is bold and has very real risks that must be accounted for

The market proves stubborn

If the prices for homes and rent keep increasing, we will:

- Tighten the regulations from above further
- Outright ban non-first time buyers from purchasing homes
- Increase rent controls for all rental properties
- Launch investigations into potential collusion by market leaders

The market crashes before we win

If investors panic before we can deliberately crash the market, we will aim to make sure this bubble doesn't happen again:

- Apply the same regulations proposed above
- Still enter the residential construction market
- If not the case already, get banks to reduce the principal of the mortgages of households that paid too much for residence to match new value anyways

The regulations are too effective

If the regulations proposed turn out to be too effective such that we overshoot our target of returning to 2019 prices, we will:

- Expand the safety net protection provided to first time buyers who bought too high
- Soften the mortgage restrictions
    - 25 year amortization
    - Reduce stress test requirements
    - Add exceptions for first time home buyers
- If that was not enough, then potentially lower the restrictions on investors

Municipalities are still restricted by property values

If the 2% sales tax is still not enough to diversify municipality budgets, we will:

- Give municipalities the authority to increase that tax within a certain range
- Make it harder to increase property taxes

We win a minority instead of a majority

Housing affordability, especially popping the real-estate bubble is one of our non-negotiable conditions to signing any coalition agreements.