

Naheed K. Nenshi, Mayor

March 4, 2019

Rt. Hon. Justin Trudeau, P.C., M.P.  
Office of the Prime Minister  
80 Wellington Street  
Ottawa, ON K1A 0A2

Hon. Bill Morneau  
Minister of Finance  
House of Commons  
Ottawa, ON, K1A 0A6

Dear Prime Minister Trudeau and Minister Morneau,

**Re: Regionalized amendments to *B20 - Residential Mortgage Underwriting Practices and Procedures***

I am writing to urge the Government of Canada to investigate and take action on implementing a regionalized approach to differentiate between varying conditions in localized real-estate markets and address the unintended consequences arising from the adoption of the *B20 - Residential Mortgage Underwriting Practices and Procedures* (B20), which came into effect on January 1, 2018. Calgary City Council unanimously requested that I write this letter to advocate for these actions. A regionalized approach to this issue would allow the appropriate balance to be struck between maintaining a strong financial system and ensuring that the dream of home ownership remains attainable, particularly for first time home buyers in Calgary, which is critical to build a strong middle class.

B20 was created in response to the unstable real estate markets in Vancouver and Toronto due to the combination of unsustainable price appreciation and high-debt ratios. It's difficult to ascertain the impact of B20 in Vancouver and Toronto, given that local and provincial policies have also sought to address the issue. However, B20 has had many unintended consequences in markets outside of Vancouver and Toronto such as:

1. Exacerbating the slowdown in otherwise stable and buoyant real estate markets in cities such as Calgary where annual growth in real estate price from 2014-2017 was around 0 per cent;
2. A reduction in construction creating fewer jobs in this and related industries;
3. An overall net decrease in Calgary homeowners' property valuations; and
4. A reduction in economic activity (GDP).

The Calgary Real Estate Board (CREB) recently released a report for the Calgary real estate market showing residential sales shrunk by 15 per cent in 2018 relative to 2017 and were down 20 per cent compared to the ten-year average. Benchmark prices were also down by several percentage points during the same period.

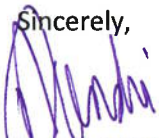
Calgarians have been hit hard financially in recent years due to many factors including volatile oil prices, a lack of market access for our oil and gas sectors, high unemployment rates, subpar job growth, and high downtown office vacancy. The unintended consequences of B20 have compounded these effects, negatively affecting jobs, economic activity, and the ability for first-time homebuyers to enter the market.

Potential first-time homebuyers with lower incomes, such as clients for organizations like Attainable Homes (a City of Calgary-owned subsidiary where I serve on the board of directors), have been adversely affected by B20. The new policy increases Gross Debt Service Ratio (GDSR) and Total Debt Service Ratio (TDSR) by 5 per cent and 8 percent respectively, reducing the number of new home buyers substantially. B20 has caused many borrowers to seek capital in the private markets where interest rates and terms are heavily in favour of the lender.

A robust housing market provides significant social, and economic benefits to Calgary's communities and neighbourhoods and needs a system that facilitates the borrowing and lending of capital in response to variations in the local and regional contexts. Canada Mortgage and Housing Corporation (CMHC) identifies numerous regional real estate markets across the country that have unique market characteristics. However, B20 does not recognize this variation to allow tailored solutions that reflect the needs of local economic and market conditions.

To mitigate the unintended negative impacts on jobs, economic activity, and the ability for first-time homebuyers to enter the market, Calgary City Council is calling on the Government of Canada to review the current impacts of B20 on localized real estate markets outside of Toronto and Vancouver, starting with Calgary, and implementing thoughtful policy changes to allow regional-based mortgage financing stress tests.

Sincerely,

  
Naheed K. Nenshi  
MAYOR

*Thank you for your consideration of this!*

cc: Calgary City Council