Canadian Home Builders' Association
Association canadienne des constructeurs d'habitations

Suite 500
141 Laurier Avenue West
Ottawa, Ontario
K1P 5J3

613-230-3060
chba@chba.ca
www.chba.ca
@CHBANational

# Federal Government's Response to the COVID-19 Pandemic

## Submission to the Standing Committee on Finance

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On behalf of the Canadian Home Builders' Association (CHBA), representing some 9,000 member companies in the residential construction industry, thank you for the opportunity to provide our assessment of the current federal emergency programming , recommendations for more comprehensive support—to preserve jobs and help business bridge to a more certain economic landscape—and, recommendations to set the groundwork for a slow and deliberate reopening the economy.

Pre-crisis the industry supported 1.2 million jobs[1], paid $76.9 billion in wages[2], and generated $160.8 billion in economic activity in Canada[3] annually. While residential construction has been permitted to continue in most jurisdictions to a certain degree, the industry has still been significantly harmed in both new construction and renovation through cancelled contracts and sales, extremely slow or non-existent sales, withheld progress payments, slowed inspections, loss of trades, and indefinitely delayed project closings (where the lion's share of revenue are secured after months or years of financing). This creates a situation in which cash flows have stopped or deteriorated quickly, resulting in layoffs.

Even after the pandemic starts to recede, the impact will continue as the loss of sales and secured contracts now will severely affect cash flow in the coming months. Over the long-term this disruption will likely exacerbate housing affordability challenges, as the shortage of supply in many Canadian centres was already excessive and driving up prices. The severe drop in housing starts this year will add to this shortage and likely contribute to increasing prices again. New home building is critical for addressing housing supply issues—especially in areas of high demand and high prices. Renovations keep existing homes in good working order and help meet the evolving needs of Canadians – something that is more important than ever.

Throughout the crisis, it has become clear how important a home is to Canadians' physical and mental health and safety and CHBA members remain committed to ensuring all Canadians have a home that meets their needs.

## Assessment of Current Emergency Programming:

CHBA commends the federal government on the speed at which the emergency relief and credit programming has been introduced, responding to the pressing needs of Canadians and businesses in

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[1] Will Dunning Inc, 2018
[2] Statistics Canada, 2018
[3] CMHC, 2018

these challenging and uncertain times. The approach of implementing quickly and making adjustments along the way has indeed been wise, and CHBA appreciates both the speed and especially the willingness of government to list and adjust course. Some of the adjustments have indeed helped the residential construction industry. However, the nature of the residential construction industry has left many struggling companies and their employees out of the loop for assistance—CHBA has submitted recommendations to rectify these issues and is happy to share them with the Finance Committee here.

- **Canadian Emergency Wage Subsidy (CEWS)**

  The wage subsidy is an important support for builders, renovators and other business in the residential construction sector trying to avoid layoffs and, where possible hire back employees who will be essential for business to bounce back when mitigation measures are eased. The business models in the residential construction sector vary considerably, and revenues, by the very nature of the business, can significantly change month-to-month and year-over-year.

  Recent changes to the reference period for CEWS and to allow cash method accounting, aligning with some of CHBA's recommendations when the program was announced, are successfully enabling many more industry members to be eligible for the subsidy and support their workers, but it still does not work for all businesses in need.

  The timing of individual business cycles and particularly home-closings cycle (and variable contract cycles for renovation) is making some eligible and others not in a way that is not reflective of actual current need to weather the pandemic impacts**. CHBA recommends:**

  1. **Allowing "fair value of contracts signed" to be permitted as an interpretation or special case for calculating qualifying revenue (likely using the cash method).** This will capture the steep decline in sales being experienced in the residential sector, which has and continues to result in layoffs, but in many cases cannot be captured by conventional cash or accrual accounting.

  2. **Continuing to seek out and respond to feedback from Canadians and stakeholders in respect to program eligibility, rollout and timelines as the COVID-19 crisis evolves and adjust accordingly to ensure business are truly able to bridge to more viable economic conditions**.

- **Canadian Emergency Business Account (CEBA)**

  As the crisis persists credit has become an important tool for many small businesses to bridge to and complement federal emergency relief programs, as evidenced by the high take up of CEBA over the past week or so.

  CHBA was pleased to see the federal government respond to our input - and that of others - on the program's eligibility thresholds, lowering the minimum salary threshold. However, even $20,000 in annual payroll is still too high for many small businesses, especially renovators, that use subcontracts and/or only draw dividends for withdrawing funds from their company. As a result, the $20,000 threshold prevents many deserving struggling companies from accessing this lifeline. **CHBA recommends:**

3. **Eliminating the minimum payroll threshold entirely for all active businesses, who can demonstrate both revenues and ongoing expenses, and/or allowing dividends to be included when calculating minimum payroll.**

- **Canada Emergency Commercial Rent Assistance (CECRA)**

  CECRA is an important complement to the existing wage subsidy and credit initiatives because it supports businesses and non-profits with their fixed operating expenses. However, the first of another month will soon pass and many businesses will struggle to make that rent payment. There are still a lot of questions about eligibility, timelines and the process for accessing the program.

  As initial program eligibility information begins to roll out, it appears there will be many issues with this program for both deserving tenants and landlords. **Therefore, CHBA recommends:**

4. **Work with industry to adjust the design and roll-out of the program** to help landlords and tenants better access the program.

## Recommendations for Reopening Economy

Residential construction has long served as an important economic driver and source of high-quality and well-paying jobs for millions of Canadians, while creating ripple effects across a range of other industries. When people purchase new homes or undertake renovations, they also tend to make other big retail purchases, including furniture and appliances, and contract a range of service providers, including real estate agents, appraisers, energy auditors, bankers, and legal professionals. When construction is disrupted, as it has been for the past month due to the immediate health and safety concerns related to COVID-19, it can have far reaching economic consequences.

When the federal government begins to shift towards economic recovery, the residential construction industry stands ready to help kickstart the housing continuum and scaleup residential construction writ-large to meet existing supply challenges, drive economic growth and create jobs.

To maximize the economic potential of the industry, CHBA recommends the following high-level actions, which we would be pleased to present in greater detail when the time is right.

1. **Restore consumer and builder confidence by bolstering the Canadian housing market through fiscally responsible measures that restart the housing continuum and promote financial stability** (including by re-introducing 30-year amortization periods for insured mortgages, and adjusting the stress test to encourage 7- and 10-year term mortgages to promote financial stability without penalizing first-time buyers).

2. **Signal a renewed commitment to housing affordability for Canadians by addressing shortages in housing supply across the spectrum** to ensure communities remain competitive to attract and retain a diverse and talented workforce (including through GST adjustments on building and purchasing homes and rentals, adding a housing component to public infrastructure stimulus and greater intergovernmental coordination to reduce fees and charges on new homes, and streamline permitting and approval processes).

3. **Introduce a 2-year home renovation tax credit (for 2020 and 2021) for all types of renovations** to help stimulate investments, support the renovation sector, protect against the underground cash economy, and most importantly, help Canadians have the home they want and that can accommodate their needs.

4. **Support demand for residential construction and ancillary products and services through smart stimulus measures that also advance Canada's climate goals without damaging affordability**, by having the above home renovation tax credit have a special carve-out for energy efficiency, based on the EnerGuide Rating System, and that that tax credit be kept permanently to support the years of activity it will take to get Canada's existing housing stock to necessary levels of energy performance.

5. **Work with the provinces and municipalities to ensure regulation and red-tape do not excessively delay new housing supply or add excessive cost to construction reducing affordability.** This includes adding affordability as a key objective to the national building code and increasing investment in research and development to find technologies and solutions that meet performance objectives (e.g. energy efficiency) for the same cost or less—and ensuring that regulations do not occur until affordable solutions are found.

6. **Help Canadians out-of-work due to COVID-19 into rewarding, high-quality and in-demand jobs in the residential construction industry** (by expanding promotion of skilled trades; investing in skills training in critical, transitional fields (i.e. energy audits, retrofits, and net-zero home construction) and in partnerships with employers and postsecondary educational institutions.

7. **Support a resilient residential construction sector by exploring opportunities to increase cashflow as it bounces back**—especially for small- and medium-size businesses, by work with financial institutions to ensure access to flexible solutions to manage defaults, credit needs and other financial challenges in the coming months—because of the cash flow nature of residential construction the impacts of COVID will continue for the construction industry for quite some time.

    a. **Work with banking sector to ensure healthy cash-flow and liquidity in the financial system through recovery**, to meet the credit requirements of businesses trying to stay afloat in the coming months, including well after the economy re-opens.

    b. **Provide opportunities for businesses to defer interest payments on business and construction loans, by up to a year**, while they rebuild from the financial challenges, they faced due to COVID-19.

c. **Where possible put in place mechanisms that mitigate diversion of economic activity to underground cash economy (including a home renovation tax credit per above)**– a serious challenge in economically difficult times and can have devastating implications for homeowners and their homes.

Thank you once again to the Standing Committee on Finance for this opportunity, CHBA would welcome the opportunity to present in-person or provide any follow-up information required to support this study and the valuable work you are doing on behalf of Canadians during the crisis. CHBA will also submit more details on its recommendations for recovery.

For more information, please contact Nicole Christy, Manager of Government Relations, at nicole.christy@chba.ca or 613-230-3060 x241.