



SPEAKING NOTES

Standing Committee on Finance (FINA) Study on the Government's Response to COVID-19 Pandemic

Kevin Lee, CEO, Canadian Home Builders' Association

Date: Thursday, June 4, 2020, 3:00-5:00PM

Opening Address

Thank you, Mr. Chair.

As you know, CHBA represents 9,000 member companies across Canada and an industry of over 1.3 million jobs and 142 billion dollars in economic activity, under normal circumstances.

While the sector has been operating through the pandemic in some capacity, it has not been business as usual. Sales of new homes and starts have tailed off dramatically during the pandemic. Renovation companies have also slowed dramatically or stopped, especially when it comes to projects within people's homes.

So CHBA has very much welcomed the work of the government to provide emergency programs to support workers and businesses. We have also appreciated how responsive the government has been to feedback to make changes to close gaps and maximize impact.

In particular, the Canada Emergency Business Account and the Canada Emergency Wage Subsidy program have helped support many businesses in our sector. Changes to the reference period for the wage subsidy, and the ability to use the cash or accrual accounting method have been very important; as have changes to



CEBA to lower the minimum payroll threshold and to render dividends eligible. We are very thankful for those on-the-fly adjustments which have allowed many more of our challenged companies to qualify.

At the same time though, and as we have expressed in our ongoing dialogue with government, there remain outstanding challenges, particularly with regards to the Wage Subsidy program.

The challenge is that in residential construction the revenue cycles are long and essentially 95% of the revenues don't accrue until the close of a home when the keys are handed to the homeowner. A "sale" made in early 2019, with a small deposit (typically 5%), is financed over many months, or even years. The revenue comes at closing.

Due to this revenue cycle, closings have still occurred in recent months from construction over the past year or years, but new sales have dried up. In these circumstances, many businesses haven't been able to meet the revenue decline criteria of the wage subsidy program because of closings. Meanwhiles, sales have plummeted. As a result, many companies have very little or no new work, and therefore no new financing, and won't until sales pickup. As a result, they have and will continue to layoff workers.

Unfortunately, neither the changes to the reference period, or to allow cash or accrual accounting, capture this situation.

To make the program work better for situations like this, CHBA has been recommending that the program criteria be amended to allow the "fair value of contracts signed" to be used to calculate revenue. This will capture the steep decline in sales, which is the measure needed to capture these situations and keep workers employed.

A quick note too on financing: our members will need to have the financial system meet the credit requirements of businesses trying to stay afloat in the short-term and scale up construction over the longer-term. Unfortunately, some of our



companies are having issues securing the capital they need when opportunities do present themselves during this difficult time, or to extend financing due to delayed closings or lost sales. It will be important that the measures put in place by government to provide more liquidity to financial institutions translate into the actual financing required by businesses in our sector and others.

I'd like now to speak to recovery as well.

While the forecasts vary on the impact that COVID-19 will have on the housing market, there is no question that government policy can and should help to ensure housing markets remain stable, while other policies would dampen activity and slow recovery.

Housing can and should be a solid part of economic recovery, as it has been in the past.

For those Canadians who have maintained their financial situation through the crisis, there should be opportunities for them to access homeownership, or to renovate their homes to meet evolving needs of their situation. For many, COVID has placed new priorities on their needs and aspirations regarding their homes.

And the multiplier effect in residential construction to other related goods and services and jobs is extensive. Economic recovery and housing recovery go hand in hand.

In terms of recovery programming, the good thing about housing is it can achieve many other policy objectives too. To that end, we recommend:

- Removing GST/HST on new housing across the continuum for 2020 and 2021 to improve affordability immediately, and post that period, indexing the existing rebate program to better reflect current house prices.
- We recommend introducing a home renovation tax credit for 2020 and 2020/21 for all types of home renovations and connected to that, a permanent energy retrofit tax credit to tackle climate change.



- As for mortgage financing, we do need to encourage and enable those well-qualified Canadians still in a position to invest in homeownership to do so. More than ever, it makes sense to give them the option of 30-year amortizations on insured mortgages, to help well qualified buyers enter homeownership, and also to free-up much needed rental space.
- It is also time to move forward with previously announced changes to the stress test benchmark that were to come into effect on April 6th but were suspended.
- Given the Bank of Canada's recommendation to move to longer-term mortgages, we also recommend supplementary changes to the stress test to better mitigate risks for Canadians and the financial system by incenting longer-term 7- and 10-year mortgages through a stepping down of the 200-point buffer for longer term mortgages.

These are changes that keep sound controls on consumer indebtedness risks, while also enabling those still with the means, and the dreams, to achieve homeownership. This at a time when that activity can also be pivotal in economic recovery.

Thank you, I look forward to your questions.