Pre-Budget Consultation Submission for the 2023 Federal Budget for the Department of Finance

Canadian
Home Builders'
Association

Introduction

On behalf of the Canadian Home Builders' Association (CHBA), we are pleased to submit recommendations to the Department of Finance Canada ahead of Budget 2023.

Since 1943, CHBA has been the voice of Canada's residential construction industry. Representing one of the largest industry sectors in Canada, our membership is made up of some 9,000 member firms from coast to coast, including home builders, renovators, land developers, trade contractors, product and material manufacturers, building suppliers, warranty and insurance providers and related services.

CHBA welcomed many measures in Budget 2022, particularly those supporting and encouraging more market-rate housing supply and affordability. The government's stated goal from that budget is Canada will need 3.5 million homes over the next decade—CHBA concurs with that assessment. To achieve this goal, there needs to be a doubling of housing starts to about 400,000 units per year. Finance Minister Chrystia Freeland stated in her Budget 2022 speech that building more homes "must become a great national effort, and it will demand a new spirit of collaboration – provinces and territories; cities and towns; the private sector and non-profits all working together with us to build the homes that Canadians need." CHBA concurs with that assessment as well, but would note that there are currently actions by the government that are creating barriers to achieving this very goal. In addition, there are challenges facing the Canadian economy, as well as the home construction industry, that are getting in the way of reaching this national goal. CHBA would like to outline what these challenges are and provide recommendations for how to address them in Budget 2023.

Overview of Industry

Residential construction and renovation is a massive part of the Canadian economy and provides jobs in every community. In 2021, the sector accounted for 1.2 million jobs across the country, representing $81.1 billion in wages, and $182.6 billion in economic activity. Our members build low-rise, mid-rise, and high-rise homes for both ownership and rental.

The latest CHBA Housing Market Index (HMI), which is a leading indicator about the current and future health of the residential construction industry in Canada, shows the extreme effect that interest rate hikes are having on reducing housing starts for 2023. This translates to less housing supply when so much more is needed in order to address affordability challenges. The 2022 Q4 HMI results showed industry sentiment has dropped yet again to staggering lows, reflecting lower sales and buyer traffic that will translate into less housing starts in the months ahead. The HMI, which is on a scale of 0 to 100, was at 26.2 for single-family builders, while the multi-family builder HMI dropped to 26.0, both all time lows. For contrast, the HMI peaked in Q1 2022 at 89.4 for single-family builders and 88.8 for multi-family builders. It has been rapidly declining ever since due to rising interest rates. These HMI results suggest that starts could drop as much as 30% in the months ahead. This trend is the exact opposite of the doubling of housing starts that is needed. Government action is needed to help reverse that trend.

Recommendations

Exempt the Builder/Developer Community in Canada from the *Prohibition of Residential Property by Non-Canadians Act* and its Regulations

An extremely serious problem arose for the industry at the end of 2022 with regards to the Regulations surrounding the *Prohibition of Residential Property by Non-Canadians Act* released on December 21, 2022, which came into force January 1, 2023. This *Act* is crippling housing production for many industry members, in particular in our largest urban centres like the GTA that need more housing most desperately.

Although the *Act* was intended to prevent the purchase of homes by non-Canadians, the details released in the Regulations – for which there was no prepublication in the Canada Gazette – will now also have the unintended consequence of significantly limiting new housing supply. This is due to the Regulations preventing Canadian companies with partial foreign ownership (the threshold is set at 3%) from buying vacant land and assembling land with 3 or less units for development for multiple housing units. This is directly hampering the ability of many key players in Canada's development industry who continually add much needed supply to Canada's housing stock from carrying on their building and development businesses. Tens of thousands of would-be housing units are being affected – again, a step in the opposite direction of doubling housing supply.

Since the *Act* came into force at the beginning of this year, many CHBA members have reached out to our Association to detail how this will negatively impact their businesses. These members range from small, family-owned businesses to larger developers who will be prevented from providing more housing for *Canadians*. It is even affecting the development of commercial properties, the amenities so needed in our communities, as mixed-use land cannot be purchased either. We believe this is an unintended consequence of the *Act*, but it is one that must be rectified immediately.

CHBA is seeking an exemption for our industry to ensure all forms of development and construction will be allowed to continue to their businesses of providing much-needed housing supply.

Remove Unnecessary Red Tape that Penalizes Home Builders and Stifles the Industry

The *Underused Housing Tax Act* has come out with its final details in January and is creating exorbitant and unnecessary red tape and costs for an industry already short on staff and seeing input costs escalate excessively. The intent of this *Act* was to implement a one percent annual tax on the value of residential real estate owned by any non-resident, non-Canadian that is considered vacant or underused, and while newly constructed homes are exempt from this tax, the home building and development still must file an Underused Housing Tax return for each housing unit they have on title for each calendar year. This is nonsensical and again flies in the face of creating more housing supply.

This is an unnecessary burden placed upon the sector, many of whom are small- and medium-sized enterprises. On average, the industry builds 250,000 new units per year. The nature of the way the *Act* is worded will result in tens of thousands or more in separate tax filings for an industry whose newly constructed homes all qualify for an exemption under the *Act* and for which no tax needs to be paid. Builders and developers build units to sell, not to retain. The concept of requiring all of these tax returns on industry players is completely flawed and counterproductive.

This burden also comes at a time when the industry is in a precarious position due to rising interest rates and a slow market, which means more housing units unsold, increasing the burden. Adding more red tape and financial penalties for not filing to an already struggling industry is punitive and unwarranted.

CHBA is asking for the Canada Revenue Agency to not require builders and developers from having to file a tax return (UT-2900) for newly constructed units when the units are exempted from the tax in the first place.

Develop Policies to Assist the Well-Qualified First-Time Buyer

In Budget 2022, the government stated that buying a home is increasingly out of reach for far too many Canadians. Therefore, it is more important than ever to support the dream of homeownership. While the market may be seeing a softening of housing prices as a result of increasing rates, it does not mean affordability is improving as the cost of financing has increased. Increased interest rates mean that even with slightly lower prices, it is still less affordable to purchase a home.

It is essential to find the right balance of housing policy, fiscal policy, and mortgage rules to maintain stability while also supporting the needs and goals of Canadians. The right balance encourages movement along the housing continuum by creating vacancies in rental that others can fill. 80% of first-time buyers typically come from vacating rental units. When would-be buyers cannot buy homes, they stay in their rental units, causing stress on the rental market as well. A healthy housing continuum includes robust market rate housing options, and diverse pathways to homeownership, supported by sound mortgage policies.

With the current interest rate environment, there will need to be federal government policy to counter the impacts on new construction as well as locking out more first-time homebuyers. Therefore**, CHBA recommends a return to 30-year amortization periods for first-time buyers**.

A return to 30-year amortizations would go further to support well-qualified home buyers access homeownership while strengthening the economy and the Canadian financial system. If the government is concerned with risk in re-introducing 30-year amortizations for the Canada Mortgage and Housing Corporation (CMHC), this could be addressed by having Finance Canada allow private-sector insurers to partake in the insurance for 30-year amortization mortgages. By the time their first 5-year term is up, most first-time buyers have a higher salary than when they applied for a mortgage, lowering risk. Further, most Canadians do not take their entire amortization period to pay off their mortgage (the average for 25-year mortgages is that they are actually paid out in much less time – about 18 years). 30-year mortgages would be the same. Reintroducing 30-year insured mortgages – not for all buyers, but for well-qualified first-time buyers – will address growing inequities in mortgage access and will deliver financial benefits to younger Canadians and Canada as a whole.

In order to support well-qualified homebuyers access homeownership, the federal government should also **modify the stress test for both insured and uninsured mortgages to reduce the test rate on a declining basis for 7- and 10-year mortgage terms**, given the reduction in risk with longer mortgage terms for both Canadians and the financial system. Currently, the stress test reduces the buying power of those at the margins of qualifying by approximately 4 percent. The stress test is a significant barrier to the purchase of homes—longer term mortgages can both increase access to homeownership while lowering risk to the financial system.

In addition, to support first-time home buyers and the construction of new housing supply the government should **update and index the thresholds for the GST New Housing Rebate**. The GST New Housing Rebate provides a refund of 36% of the GST paid on new homes priced below $350,000. The rebate is decreased for new homes priced between $350,000 and $450,000. There is no rebate for new homes priced above $450,000. The $350,000-$450,000 thresholds have remained unchanged since the GST was introduced in 1991. When the GST was introduced, the federal government made a commitment to adjust the thresholds “at least every two years” to ensure that they continued to reflect changes in housing prices, and thus to protect housing affordability over time, in all parts of Canada. Yet the rebate has never been adjusted. It is important to reinforce that it is only purchasers of new homes who are disadvantaged by the lack of indexation of the GST thresholds, further hampering the construction of new housing supply. It goes without saying that house prices have increased dramatically since the introduction of the GST, and in many markets there are almost no homes available in the threshold range. Adjustments are long overdue. **To support first-time buyers and support construction of new housing supply, the federal government should update and index the rebate thresholds immediately.**

More Housing Supply to Address Market-Rate Affordability

A large part of the focus of CHBA is helping unlock the door to homeownership by seeking to improve affordability. However, affordability challenges, brought on by lack of supply, have hampered the dreams of many Canadians to become homeowners. CHBA was pleased to see the government announce a focus on housing supply in the budget and the development of the $4 billion Housing Accelerator Fund (HAF) to help boost the market-rate supply of homes and address the numerous barriers to getting more supply online faster.

While the details of the HAF have not yet been released, **CHBA is calling on the government to ensure that the HAF will incent municipalities to address bottlenecks and accelerate more market-rate supply**. This would include:

- **Pre-zoning for gentle densification**, including infill as well as mid-rise and high-rise height to increase density; and rezone away from single-family-only to include multi-family.
- **Increase and enforce as-of-right zoning**. This will help avoid process delays.
- **Address NIMBYism**, especially against higher density but also other housing forms and tenure (including rental).
- **Support improvements to municipal processes** such as permitting, zoning, inspection, and approval systems, including implementing e-systems.
- **Support training of building officials**, including onboarding and curriculum development, and permanent e-learning systems (versus time-limited in-person training).
- **Support moving to third party inspection services** where municipal offices cannot handle load.

Address the Skilled Trades Shortage and Supply Chain Challenges

The construction industry continues to face chronic labour and skills shortages. To keep pace with retirements and demand, a significant portion will need to come from groups traditionally underrepresented in the current construction labour force, including women, Indigenous people, and new Canadians. Ongoing labour challenges, combined with nearly 22% of the residential construction industry’s labour force set to retire over the coming decade, means that boosting the number of tradespeople in the sector is paramount, especially with the federal government’s intention to address housing affordability and supply issues.

CHBA asks that the government continue all actions to promote careers in skilled trades, to support training, and to provide financial supports to companies and individuals with respect to skilled workers (e.g. the new Canadian Apprenticeship Service**). It will also be crucial that the government improve the immigration system for skilled workers to respond better and more quickly to labour shortages in residential construction through permanent immigration solutions.** This will need to be done by enhancing the selection of immigrants with skilled trades credentials or construction experience to ensure that the residential construction sector will receive its proportionate share of newcomers.

While all efforts to increase the skilled workforce are critical and must be pursued, it is very likely that despite all such efforts, there will still be a shortage of labour in residential construction to build the necessary supply to address affordability. **CHBA therefore recommends that the government work with industry by supporting innovation and capital investment to increase industry productivity**, both in site-built approaches and factory-built solutions (such as modular and panelized construction systems).

Rising consumer demand, changing consumer habits, factory shutdowns and shipping delays have also greatly impacted the home building industry. According to CHBA's Housing Market Index panel, supply chain issues also continue and have resulted in an average of 10 weeks in delays in home completions for builders across Canada. Members also continue to find the price volatility of lumber to be a factor in rising construction costs. **CHBA is calling on the federal government to support the entire residential supply chain to maximize housing supply output and delivery as well as avoiding and seeking a timely end to trade disputes.**

Avoid Adding Costs Through Codes and Regulations

Like housing affordability, climate change is a top-of-mind issue for Canadians. While there is an important role that housing can play, it is important to ensure that addressing climate change does not exacerbate housing affordability challenges along the continuum, driving homeownership further out of reach for more individuals and families, and reducing the number of social housing units that can be built. Many new policy directions that put pressures for more stringent codes and regulations are very important, such as climate change mitigation, resiliency, accessibility, and others. Unfortunately, almost all short-term actions to address these policy priorities through regulation increase costs to housing. It is critical to innovate and find solutions to these challenges without driving up housing costs.

It is important to invest in R&D to find energy efficiency measures and solutions to other policy goals that do not reduce affordability. **The government should focus on innovation to bring down costs and scale up use first, before regulating excessively high levels of energy performance, or any other policy driven code changes.** CHBA cautions against adding excessive costs through code and/or regulation that will impact housing affordability in Canada, at a time when home is more important than ever. Therefore, **CHBA recommends adopting affordability as a core objective of the National Building Code, and all related standards, to ensure that we are building better, more efficient home for the same price or less moving forward.**

CHBA further recommends having the EnerGuide Rating System (ERS) label on all houses at the time of resale to raise the energy literacy of Canadians, help home valuations truly reflect energy efficiency, and further encourage Canadians to make energy efficiency and retrofit investments on an accelerated pace in ways they can afford. The ERS should also be expanded and promoted as the backbone of all renovation incentives, tax credits, and other energy efficiency initiatives by governments, utilities, and other organizations. Consistency and clarity can help homeowners tackle climate change.

Net Zero Ready Renovations Should Qualify for the GST/HST New Housing Rebate

The GST/HST New Housing Rebate allows an individual to recover some of the GST or the federal part of the HST paid for a new or substantially renovated house. The rebate is 36% of the GST paid to a maximum amount of $6,300 (though per above CHBA recommends the thresholds be increased to reflect the price of today's houses—those thresholds have not been changed since the Rebate's inception in 1992).

According to the Rebate rules, "If a house has been substantially renovated, it is generally treated as a newly built house. Only certain major changes will meet the definition of a substantial renovation. For a substantial renovation, the interior of a house is essentially gutted. Generally, 90% or more of the interior of an existing house is the minimum that has to be removed or replaced to qualify as a substantial renovation (90% test)."

Given the Government of Canada's drive towards Net Zero and given that to renovate a house to meet Net Zero or Net Zero Ready levels of performance is a very major renovation entailing very high costs, it is recommended that all renovations of homes to this level of performance be considered "substantial renovations" and qualify for the GST/HST New Housing Rebate.

Note that a Net Zero or Net Zero Ready renovation may not involve renovating much of the livable floor space (one of the major metrics per the current Rebate rules), but will typically involve renovation of 100% of the walls above and below grade (which will have all of their interior or exterior finish removed to increase insulation, so essentially be "gutted"), renovation attic (insulation), air sealing of the entire building envelope, replacement of heating systems, cooling systems, domestic hot water heating systems, windows, addition/replacement of heat recovery ventilation, installation of solar panels (for Net Zero), and more—clearly a substantial and costly renovation.

This rebate should clearly fall within the "substantial renovation" classification, and also supports the government's pursuit of a net zero future. **Therefore, CHBA recommends that Net Zero and Net Zero Ready renovations should qualify for the GST/HST New Housing Rebate.**

Conclusion

As stated in the introduction, CHBA was pleased to see the important market rate housing items in Budget 2022. However, the time has come for the government to follow through with these commitments including formally introducing the long-awaited Housing Accelerator Fund containing much-needed measures to boost market-rate supply. CHBA is calling on the federal government to address our industry's concerns and implement the recommendations rapidly to help unlock the door to home ownership. Should Finance Canada have any questions or would like to have more information, please contact Nicole Storeshaw, Director, Government Relations at nicole.storeshaw@chba.ca or 613-230-3060 ext. 241.