CANADIAN HOME BUILDERS' ASSOCIATION'S RECOMMENDATIONS FOR BUDGET 2020

Canadian Home Builders' Association

Building solutions to address Canada's housing affordability challenges

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MESSAGE FROM CHBA'S CEO

Dear Minister Morneau,

The Canadian Home Builders' Association (CHBA) is pleased to provide our recommendations for consideration in Budget 2020 to improve housing affordability and unlock the door to homeownership for Canadians. Given our leadership role in net zero housing, we can also give our perspective on how to accelerate energy efficiency adoption in new and existing homes across Canada by addressing affordability.

The recent federal election campaign made it clear that many Canadians have been left behind: housing options are in short supply, driving up home prices and rents, while mortgage rules have made it still harder to become a first-time buyer, further stagnating the housing continuum. For Canadians that are not yet homeowners but still identify as being middle-class, the dream of homeownership is slipping away. But it doesn't have to be this way, nor should it.

CHBA has put forward proposals that will give Canadians better access to homeownership and more housing choice, while balancing their needs and aspirations with systemic risks to the country's economic well-being. A constructive and ongoing assessment of current and proposed policy options on both the demand and supply side is needed and can go along way to improving housing outcomes for Canadians across the continuum.

It is also clear that many Canadians want more action to tackle climate change. CHBA and its members have been leaders in energy efficiency for decades, and we continue to lead with our Net Zero Energy Housing Council (which is now six years old), and our Net Zero Labelling program that is leading the way in voluntary programming in this space. From builders and developers to renovators and other residential construction professionals, our members are continually implementing new, innovative ways to increase energy efficiency and climate resilience. However, when it comes to regulation, we have to recognize that these technologies and materials come at a higher cost and therefore increase housing construction costs for buyers and owners. We are therefore working hard to innovate technologies and systems that can reach higher levels of performance without reducing affordability. On behalf of Canadians, we are asking government to regulate only as levels become cost effective—too much regulation while the technology is still too expensive will knock still more homebuyers out of the market. We must all also recognize that reaching Canada's climate change goals through housing won't be about new construction - that is continually improving already - but about improving the existing stock to reduce GHG emissions. As leaders in energy retrofits, we have recommendations accordingly.

Election night sent a clear message: Canadians want a government that works together and works for them. Budget 2020 is an opportunity to do just that. All parties rightly identified housing affordability, homeownership and energy retrofits as key priorities in their platforms and put forward ideas that started a national dialogue. Let's keep talking, bringing all orders of government, industry and the public together to build solutions to Canada's housing and affordability challenges and keep the dream of homeownership in reach.

Thank you,

Kevin Lee, P.ENG., M.ARCH.
CEO, CHBA

IMPROVING HOUSING AFFORDABILITY

Across the housing continuum Canadians are struggling to be able to afford homes for themselves and their families, and the federal government can help.

RECOMMENDATION: Work with OSFI to adjust the mortgage stress test to better align it with current market conditions and engage industry and stakeholders in this process.

On February 18th 2020, important changes to the stress test for insured mortgages were made. These were a step in the right direction. Similar changes to the OSFI stress test for uninsured mortgages are needed, as is a declining buffer rate down to 0.75% for 5-year terms, and 0% for 7- and 10-year terms. The Bank of Canada is calling for longer term motgages, and given the stress test declining rate can therefore serve many purposes, including reducing risk while supporting responsible homeownership.

These adjustment continue to be needed as while this first stress test change is a step in the right direction, the ongoing inability of renters to access home ownership, and of would-be move-up buyers to sell their starter-homes and/or afford their next home, is still stalling movement along the housing continuum. This limits rental unit availability, drives up rents, and causes more challenges for those in housing need as well as those organizations seeking to provide it.

Since residential construction is such a big part of local and regional economies, the slowdown is exacerbating economic downturns, where instead construction should be part of the solution.

While mortgage arrears continue to remain below 0.3% in Canada nationally, showing Canadians are always very responsible in making mortgage payments, CHBA estimates that the stress test knocked out nearly 150,000 would-be buyers, about half of which would have been first-time buyers.

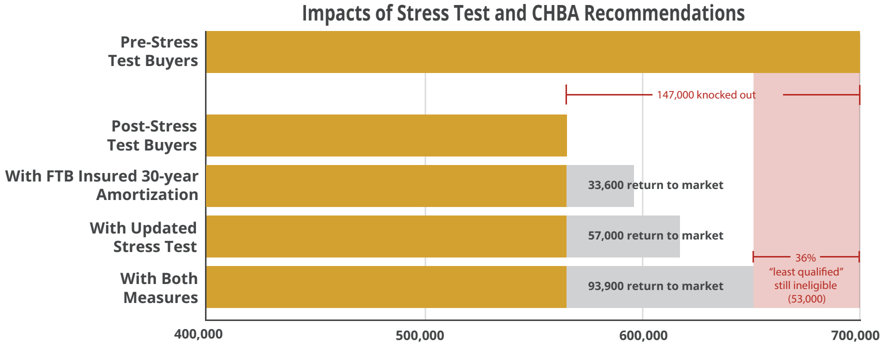
The stress test is also increasing risk to Canada's financial system. An April 2019 CIBC report noted that "mortgage originations provided by alternative lenders rose by a cumulative 27% while originations in the market as a whole fell by 11%." In sum, non-regulated lender activity is ramping up, increasing systemic risks as a direct result of the current design.

What these (and other) numbers tell us is that the uninsured-mortgage stress test should also be dialed back, and both stress tests should be set to a declining rate for longer term mortgages. Impacts have been far-reaching, hampering housing markets in more balanced and struggling regions, particularly in the prairies. By adjusting the stress test to encourage longer term mortgages—products that the Bank of Canada has been recommending—we can increase affordability, help well-qualified Canadians into homeownership and improve stability of the financial system.

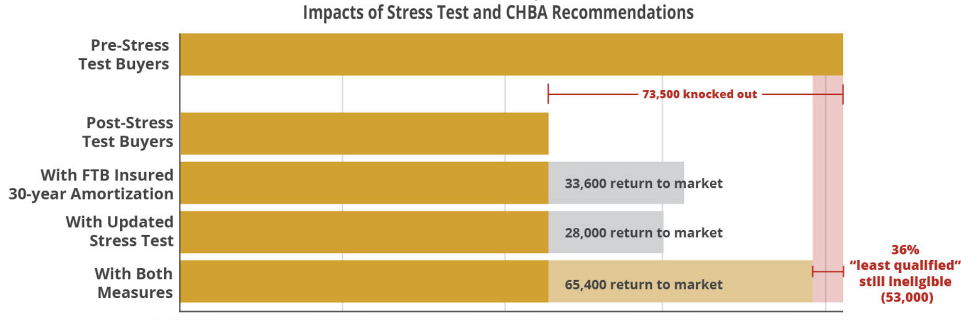
It is important to note that CHBA is not calling on the government to discontinue the stress test. We are recommending small changes that better align with current and emerging market conditions. CHBA's recommendation to replace the current universal 2% buffer with a declining rate stress test based on the mortgage term is an appropriate evolution of the test that can maintain its effectiveness and intent while avoiding the excessive negative economic impacts we are seeing.

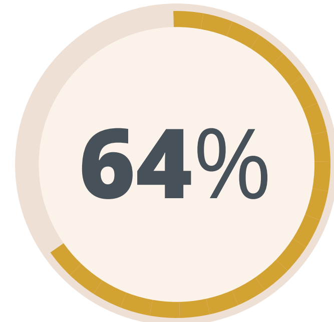
[1] See CIBC Economics, "The Mortgage Stress Test: The Operation Was a Success, But…," April 16, 2019, at: https://economics.cibccm.com/economicsweb/cds?ID=7069&TYPE=EC_PDF

Total Market (Including First-Time Buyers)
Impacts of Stress Test and CHBA Recommendations

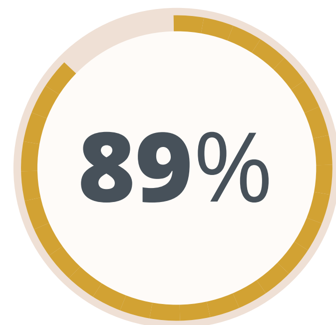


First-Time Buyer
Impacts of Stress Test and CHBA Recommendations





Implementing CHBA recommendations would return the top 64% most qualified of the buyers to the top of the market.



And would alllow 89% of first-time buyers, the lowest risk group, to come back and have a fair shot as first-time buyers.

Those returning would still be low risk as they would still need to pass the adjusted stress test, debt service ratios, down payment requirements, credit rating scores, and mortgage insurance.

RECOMMENDATION: Re-introduce 30-year amortizations for insured mortgages for well-qualified first-time homebuyers.

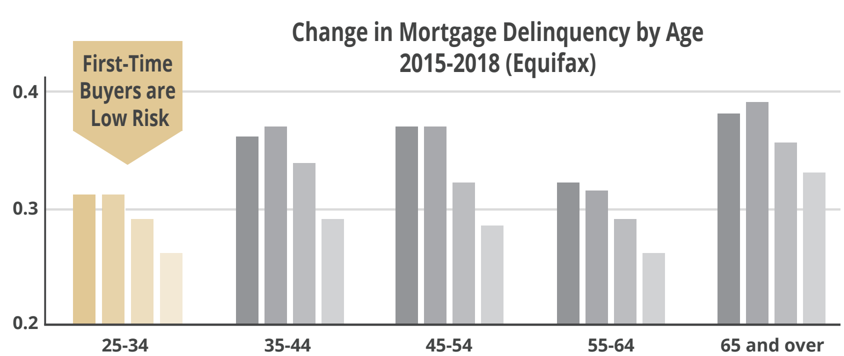
Reintroducing 30-year insured mortgages for well-qualified first-time homebuyers will address the growing inequities in mortgage access and deliver benefits to all Canadians, and particularly millennials and new Canadians who deserve a fair shot at homeownership.

It has been posited that first-time buyers are high risk; in fact, younger Canadians are the lowest risk group of buyers in terms of mortgage arrears, plus they have the longest time-frame to pay off their mortgages if they need it. Most Canadians pay off their mortgage in 17 years, by choosing increase payments, payment schedules, etc. Their incomes also tend to rise consistently and quickly, making mortgage payments increasingly affordable over time. And first-time buyers seeking entry-level homes do not cause excessive house price escalation in any regional market.

Data provided by Canada Mortgage and Housing Corporation (CMHC) reveals that returning to 30-year insured mortgages would only increase prices by 1 to 2.4%, a range that reflects normal appreciation. If only applied to first-time buyers, the overall market affect would be even less. At the same time, CHBA analysis projects this would allow some 34,000 well-qualified first-time buyers into the market annually, still leaving out some, but allowing the majority of well-qualified buyers in.

A return to 30-year mortgages would also return more dollars to government through CMHC mortgage insurance. Options on how best to direct this additional revenue should be carefully examined: they could be used to support affordability in other ways and/or energy efficiency.

Millennials are low risk, with by far the lowest arrears rate, and are best positioned to take longer term mortgages due to increasing incomes.



RECOMMENDATION: Adopt federal policies and programs to help increase housing supply by leveraging transit investments and land write-downs to support affordable, market rate, mixed-use communities and working cooperatively with other orders of government.

An enhanced federal government role, working with its municipal, provincial and territorial partners, is needed to increase housing supply across Canada.

Millennials are now of an age where they are seeking family-oriented (usually ground-oriented) housing forms. However, at current rates, Canada will be some 300,000 of these housing units short over the next decade. This is a big part of the housing supply story—with limited supply and growing demand, prices on what is available naturally go up. In order to address this challenge, we need the right kind of housing, in the right places.

Increased housing supply needs to come in the form of more entry-level and "missing middle" options for Canadians: medium-density low-rise homes in mixed-income, mixed-use, walkable communities with ready access to public transit. Getting more housing supply online across Canada will help keep prices down for all homes, while also freeing up rental properties as people move into their first homes.

Development taxes, NIMBYism (Not in My Backyard), outdated zoning, lengthy approval processes, and other red-tape obstacles have made housing more expensive and difficult to bring online in the forms needed, especially when it comes to "missing middle" housing that is ideal for first-time home buyers (and, increasingly, for Canadians at any stage of life). There is a federal leadership role to be taken in all of these areas.

The launch of the Housing Supply Challenge in the Fall Economic and Fiscal Statement could be helpful for identifying barriers that limit the creation of new housing, and ways to break them down. Working with CHBA and industry stakeholders will be key to better understanding the challenges around supply and how to design the Challenge to maximize potential impact.

Budget 2020 can set the stage for smart increases in supply by ensuring that federal infrastructure funds are tied to plans that will lead the way to proper density around transit nodes to promote affordability and get more people across Canada into the homes they want to live in, whether it be market rental housing or market homeownership housing.

Simultaneously, continued investment in improved data to support better decision-making as it relates to housing by all orders of government is essential. The federal government is uniquely poised to lead the way towards improvements in demographic data, more accurate housing stock data, including housing ownership (i.e. beneficial ownership, foreign ownership, speculation, vacancy rates, etc.) and a deeper understanding of the impact of regulation on housing supply.

Other Measures to Improve Housing Affordability

RECOMMENDATION:

Recognize housing as a basic need and eliminate GST/HST on building and renovating housing in Canada.

- Remove GST/HST on new housing to improve affordability, particularly for first-time home buyers.
- Exempt the construction costs of new rental housing and costs of renovating rental housing from GST to reflect the fact that ongoing rental revenues do not benefit from input tax credits or all for GST collection. This step could improve the financial viability of building and maintain more rental housing.

RECOMMENDATION:

Allow deferral of capital gains and recaptured depreciation of existing rental properties if the entire proceeds of sales are demonstrably invested in equal or greater new purpose-built rental properties.

RECOMMENDATION:

Amend the federal tax regime and appraisal rules for accessory suites such as granny flats and laneway housing to avoid discriminating against new purpose-built forms of infill rental developments.

RECOMMENDATION:

Ensure the timely implementation of the Canada Housing Benefit, which commences in 2020 and ends in 2028.

ADDRESSING CLIMATE CHANGE AND AFFORDABILITY THROUGH INNOVATION

Like housing affordability, climate change is a top-of-mind issue for Canadians. And there's an important role that housing can play. But smart policies are required to ensure that addressing climate change doesn't put added stress on home buyers, homeowners and renters.

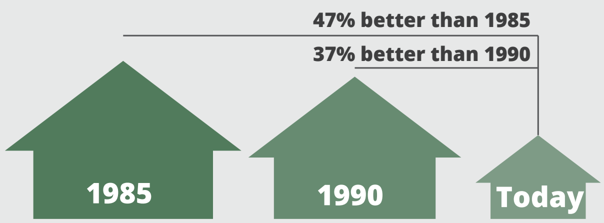
RECOMMENDATION: Enshrine affordability as a core objective of the National Building Code, for all aspects of the code and particularly as it relates to GHG mitigation and climate change adaption.

CHBA is a strong proponent of the National Building Code and is proud that Canada has one of the best building code systems in the world. Thanks to decades of industry/government collaboration, Canada's housing is of excellent quality and boasts energy efficiency levels some 50% better than 30 years ago—and this has been done through innovation, not regulation.

Canada can continue to improve the energy efficiency of its new homes but given the already excellent performance of new builds, additional energy efficiency should only be added as it can be shown to be cost-effective or innovation is achieved to make it so. There is a real danger that the current accelerated pace of change without providing affordable solutions is set to further impair housing affordability, adding many tens of thousands of dollars to the price of every new home that are not offset by energy savings.

The government should therefore ensure that affordability is a clear objective of the building code when considering code changes. Currently in the code process costs may be looked at but affordability is not a code objective. As a result, undue costs can be added without full and proper assessment. We have reached a point where the emphasis on costs is critical. By taking steps to address the affordability gap, we can ensure that innovation occurs before costly regulation, so that future energy efficiency requirements do not simply erect even higher barriers to those aspiring to join the ranks of the middle-class through homeownership.

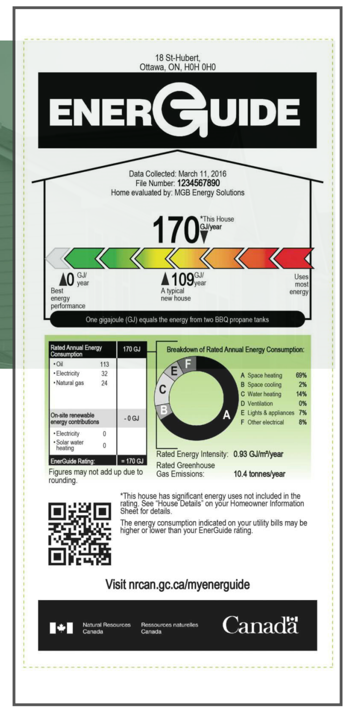
All orders of government and stakeholders alike must strive to provide enough resources to help homes achieve higher levels of energy efficiency, including net-zero-ready performance, without negatively impacting affordability. Net-zero-ready performance is currently targeted for regulation by 2030, a target that has been set without consideration for cost. It is time that affordability be a mandated objective of the code, not just a "nice to have" if it isn't overruled by some other policy.



Energy Consumption Improvement

Energy consumption has improved drastically over the past 30 years. Therefore the key to reducing GHG emissions in the housing sector is by addressing the existing housing market, and that won't occur through regulation.

RECOMMENDATION: Support Home Labelling



Having the EnerGuide label on all houses at the time of resale has the potential to dramatically raise the energy literacy of Canadians, helping home valuations truly reflect energy efficiency and further encouraging Canadians to make energy efficiency and retrofit investments.

The advantages of having the EnerGuide label are numerous. For example, it provide homeowners with an accurate picture of their home's energy performance, and where the most cost-effective energy-efficiency improvements can be made. Further, the EnerGuide Rating System can serve as vehicle for federal tax credits (see next recommendation), and for all provincial and utility incentive programs to maximize energy efficiency and leverage federal dollars (as it has in the past). The end-result: it can maximize efficiency and effectiveness and keep homeowners on a continual path of energy improvements over time.

It is also essential that any government programs for energy efficiency require use of the EnerGuide Rating System. This includes the new no-interest loan program for energy retrofits, free energy audits, and the grant program for net zero homes (see page 10).

RECOMMENDATION: Introduce a permanent renovation tax credit, using the EnerGuide Rating System, to address emissions in the existing housing market.

Through a permanent energy retrofit tax credit, based on the use of Natural Resources Canada's EnerGuide Rating System (ERS), Canadians would improve the energy efficiency of their homes, benefitting themselves, the economy, and national competitiveness. As noted above, investing the ERS would allow it to be a backbone for national, provincial, municipal, utility and NGO energy efficiency programs, as it was during the time of the ecoENERGY Retrofit Homes Program. This piggybacking has substantial savings and long-term benefits in ongoing retrofits and better consumer literacy leading to energy savings.

Further, government receipt-based incentive programs have a proven record of suppressing underground economic activity. When the tax revenues gained from reduced underground cash activity are included in an assessment of such a program, and all of the socio-economic benefits are also tallied, a well-designed program can more than pay for itself.

According to CHBA's analysis, such as tax credit would be revenue positive for the government with a net revenue of $56 million. A permanent tax credit would also allow homeowners to plan their energy retrofits in stages over years, as their budgets allow.

RECOMMENDATION: Consult extensively with CHBA on the development and delivery of both the proposed grant of up to $5,000 to support buyers of newly built certified net zero homes, the delivery of free energy audits, and up to $40,000 in interest-free loans to implement the results.

As the federal government considers how best to deliver on these commitments, CHBA will be seeking to actively engage with CMHC and Natural Resources Canada to provide expert advice and insights from association and member experience across the country. CHBA has a proven track record of accelerating the adoption of energy efficiency renovations and net zero homes in Canada, while also avoiding the pitfalls and unintended consequences of such programming.

These initiatives must be designed in a way that: builds on existing work in the sector; connects with initiatives at other levels of government, utilities, NGOs and more; promotes transparency; and supports the necessary technology and human resources required to work toward the objectives. Per above, it is also critical they all be based on the government of Canada's EnerGuide Rating System.

INVESTING IN A STRONG HOUSING MARKET

While the above represent CHBA's key recommendations, there are many other ways the government can further support housing affordability.

Skilled Trades

RECOMMENDATION:

Continue to expand activities that promote skilled trades for young people in the residential construction industry.

RECOMMENDATION:

Invest in employer-directed training and partnerships with employers and post-secondary educational institutions, especially colleges, to align with the needs of Canadian companies in the residential construction industry.

RECOMMENDATION:

Make changes to the immigration system to respond better and more quickly to labour shortages in residential construction through permanent immigration solutions.

International Trade Disputes

RECOMMENDATION:

Make improvements to current trade dispute mechanisms (dumping and countervailing duties) to limit the disruption that these processes cause on markets, and in particular the residential construction industry. They cause uncertainty in both the price and availability of materials used for Canada's residential construction industry, which ultimately lead to higher costs for Canadians purchasing or renovating their homes.

RECOMMENDATION:

Engage end users such as home builders and contractors in trade tribunal processes that affect residential construction. As learned through the trade tribunal process on U.S. drywall, involving end users was critical to the Canadian International Trade Tribunal's ultimate recommendations and the federal government's decision on final levies and the reimbursement program, which all helped support better housing affordability.

ABOUT CANADIAN HOME BUILDERS’ ASSOCIATION

Since 1943, the Canadian Home Builders’ Association (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 companies – including home builders, renovators, land developers, trade contractors, product and material manufacturers, building product suppliers, lending institutions, insurance providers, and service professionals. Our sector supports over 1.2 million jobs and $160 million in economic activity.

CHBA seeks a strong and positive role for the housing industry in Canada’s economy and in the life and development of our communities. In addressing this goal, we support the business success of our members. We work to ensure Canadians have access to homes that meet their needs at a price they can afford to pay, and that the interests of home buyers and homeowners are understood by governments.

CHBA is a federal not-for-profit organization governed by an elected Board of Directors and a volunteer executive, supported by our professional staff. At the national level, our system of Committees and Councils brings together builders and industry experts from across the country to share information and ideas, and to formulate recommendations to governments to improve the quality and affordability of homes for Canadians.

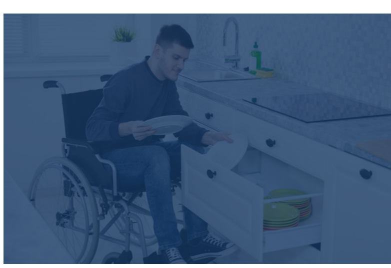
CHBA is leading the way with voluntary programming.

TACKLING THE UNDERGROUND ECONOMY

CHBA’S *Get It In Writing!* campaign informs homeowners about the risks of hiring someone for cash without a written contract. CHBA RenoMark™ renovators are committed to always providing a contract.

NET ZERO HOME LABELLING PROGRAM

The Program provides the industry and consumers with a clearly defined and rigorous two-tiered technical requirement that recognizes Net Zero and Net Zero Ready Homes, and identifies the builders and renovators who provide them.



HOME MODIFICATION COUNCIL

Connecting Canadians with qualified renovators to modify homes for aging in place (or people with disabilities).