Pre-Budget Consultation Submission

2023 Federal Budget for the Department of Finance

Canadian
Home Builders'
Association

Introduction

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 8,500 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.

In Budget 2022, the government stated that Canada will need an additional 3.5 million homes over the next decade, over and above the 2.3 million the sector would normally build. 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. However, housing starts are slowing at a time when the opposite is needed to increase housing supply. There are many policy barriers that are getting in the way of achieving this goal. Below, CHBA outlines those barriers and recommendations on how to address them.

Overview of Industry and Affordability Challenges

Residential construction, for both new housing and renovation, accounts for 1.5 million jobs across the country—jobs in every community—representing $107.2 billion in wages, and $211.3 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 continuing to have on reducing housing starts. This translates to less housing supply when so much more is needed to address affordability challenges. The HMI, which is on a scale of 0 to 100, was at 39.9 for single-family builders, while the multi-family builder HMI stands at 41.0. For contrast, the HMI peaked in Q1 2022 at 89.4 for single-family builders and 88.8 for multi-family builders. Low industry sentiment reflects in lower sales and buyer traffic which will translate into fewer housing starts in the months ahead with HMI results suggesting that starts could drop as much as 30% for 2023. In Q2, 67% of CHBA's HMI panelists stated that the slowdown in the market is causing them to build fewer units, and 22% are cancelling projects entirely. This trend is the exact opposite of the doubling of housing starts that is needed.

Government action is needed now to help reverse that trend, and will continue to be needed once interest rates return to more normal levels, as to double starts, and ongoing macroprudential environment that supports housing purchasing and investment in rental construction will be essential. It is vital that monetary policy, fiscal policy, mortgage rules and all regulations *all work together* to create stable financial conditions that support more housing supply.

Development taxes and red tape delays and NIMBYism – while not strictly within the purview of the federal government – continue to increase costs. For example, total government-imposed costs on houses now can be as high as 31% of the sale price. The number of government processes and regulations, as well as inefficiencies or lack of capacity, delay projects, slow down development and significantly increase costs. It will be essential that the Housing Accelerator Fund be effective in incentivizing action in municipalities to positively address these challenges that contribute to affordability challenges.

Labour shortages persist and will into the future, while material costs continue to remain high. Construction costs increased substantially through the pandemic and have not receded. While lumber has come down from record highs, other materials are still much more expensive. According to CHBA's HMI, labour costs are up 28% and the construction material costs for a typical 2,400 sq. ft. home are still up over $65,000.

The Pathway: Getting on Track to Build 3.5 Million Additional Homes

There are many ways the federal government can help unlock the door to homeownership and support the production of more purpose-built rental. Below contain key CHBA recommendations to address housing affordability and supply.

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

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 trend of falling homeownership rates must be reversed. The right policy balance would create higher homeownership rates for the next generation of Canadians while encouraging movement along the housing continuum. More first-time buyers create 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.

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**.

This 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), Finance Canada could allow private-sector insurers to partake in the insurance for 30-year amortization mortgages. Reintroducing 30-year insured mortgages would support well-qualified first-time buyers, address the growing inequities in mortgage access between generations and deliver financial benefits to younger Canadians.

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.

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. At that time, 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. 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.

Fix Taxation on Purpose-Built Rentals

As part of Canada's nationwide housing crisis, pressure is being put upon the rental market. The country needs more purpose-built rentals, but the tax system undermines the business model. CHBA **recommends to zero-rate purpose-built rental housing for GST/HST** at least for development costs, if not operating costs. At minimum, GST/HST payments should be deferred until the sale of the unit. The government should also **defer capital gains tax and recaptured capital cost allowance on the sale of rental housing if reinvesting in rental housing**. The government should also **introduce a "rental retention vendor tax credit" for private owners selling to not-for-profit groups and reinvesting in new purpose-built rental** (this would help protect lower-rent units and keep them in the market).

Address the Skilled Trades Shortage

The construction industry continues to face chronic labour and skills shortages. Ongoing labour challenges, combined with nearly 20% 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 to increase housing starts.

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. 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).

Avoid Adding Costs Through Codes and Regulations

While there is a role that housing can play in addressing climate change, 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 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.

Previous budgets sought to put still more into Canada's building codes but as CHBA continues to advocate, 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. 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 that the Federal Government support provinces to require 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

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. 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.

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**.

Should CHBA CEO Kevin Lee be required to provide further information through testimony at committee, please contact Nicole Storeshaw, Director, Government Relations at nicole.storeshaw@chba.ca or 613-230-3060 ext. 241.