

# Pre-Budget Consultation Submission for the 2023 Federal Budget



On behalf of the Canadian Home Builders' Association (CHBA), we are pleased to submit recommendations to the Standing Committee on Finance for the 2023 Federal Budget.

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. To achieve this goal, there needs to be a doubling of housing starts to about 400,000 units per year. The Finance Minister 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." However, there are challenges facing the Canadian economy, as well as the home construction industry, that could get 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.

### **Recommendation 1 – 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.

### **Recommendation 2 – Avoid More Demand-Side Restrictions and Counter Rising Interest Rates**

Finding the right balance of housing policy, fiscal policy and mortgage rules to maintain stability while also supporting the needs and goals of Canadians is essential. 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 and the inability to become a first-time buyer puts pressure on rentals. A healthy continuum includes robust market rate housing options, and diverse pathways to homeownership, supported by sound mortgage policies.

Currently, high interest rates and the impact it is having on home sales in new construction is putting the homebuilding industry in a precarious position. The Q3 2022 release of CHBA's Housing Market Index (HMI) shows the sobering impact of rising rates. The HMI is a leading indicator about the current and future health of the residential construction industry in Canada. The Q3 2022 numbers show that single-family HMI is 43.4, down 22.3 points since Q2 2022, and down 34.4 points since Q3 2021. The multi-family HMI is 35.9, down 24 points since Q2 2022 and down 41.7 points since Q3 2021.

The impact of interest rate hikes on traffic in builders' sales offices show that buyers are delaying purchasing (61% of respondents). The market slowdown is also causing over half of respondents (55%) to build fewer units. Only 45% of builders stated that they think their company will have as many housing starts in 2022 as they did in 2021. This is down 35% from 80% in Q1 2022.

While raising interest rates targets curbing overall inflation in the economy, the effect on slowing housing starts excessively runs the risk of starting a recession in construction and is at odds with the government's stated goal of needing 3.5 million homes over the next decade to help address Canada's housing supply shortage and the chronic housing affordability issues that come with demand continually outstripping supply.

Canadians, particularly first-time buyers, are feeling the effects of rising interest rates. 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. Rising interest rates are locking more and more first-time buyers out of the market, reducing industry's ability to bring on more supply while also increasing demand in the rental market, driving up the cost of rent.

With the current interest rate environment, there will need to be federal government policy to counter the impacts on new construction and 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 remains 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.

Supporting first-time buyers will not adversely stoke the housing market, nor will it create undue risk. The age cohort under the age of 35 is shown by all the data to be the lowest risk cohort of buyers in terms of mortgage arrears. Furthermore, by the time their first typical 5-year term is up, most first-time buyers have a higher salary than when they applied for a mortgage, putting them in stronger financial position. In addition, 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)—similar results can be expected for 30-year amortizations. Plus, almost all homeowners end up in the equivalent of the mortgage market for 30 years, buying a first home, then years later entering into a 25-year mortgage for their move-up home. Reintroducing 30-year insured mortgages – not for all buyers, but

for well-qualified first-time buyers – is therefore a logical low-risk step that can address the current access challenges, support more housing supply, and address growing inequities in mortgage access to 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.

### **Recommendation 3 – 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, mean 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 construction).

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. According to the HMI panelists, appliances continue to be the number one most impacted product, followed by plumbing materials and plumbing materials. 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.**

### **Recommendation 4 – 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.