

# **Pre-Budget Consultation Submission for the Upcoming Federal Budget**

**Canadian  
Home Builders'  
Association**



## List of Recommendations

Recommendation 1: **Support a resilient residential construction sector** as it recoups from the COVID-19 by ensuring adequate cashflow and liquidity in the financial system.

Recommendation 2: Introduce new opportunities to incent economic activity, generate jobs and address the underground economy **by lowering the cost of housing.**

Recommendation 2.1: Temporarily remove GST/HST on new housing.

Recommendation 2.2: Update and index the existing GST/HST New Housing Rebate.

Recommendation 2.3: Exempt the construction costs of new rental housing and costs of renovating rental housing from GST.

Recommendation 2.4: Introduce a temporary home renovation tax credit for all types of home renovations.

Recommendation 3: **Provide federal leadership and work with all orders of government to support new housing supply** and improve affordability.

Recommendation 3.1: Ensure any public infrastructure stimulus funding for provinces and municipalities supports creating new or upgraded serviced land for housing – including new homes, infill, rental, and affordable housing.

Recommendation 3.2: Ensure that any infrastructure or supplementary funding received from provincial or federal governments to support municipal operations can also be used to offset development charges or other fees on development.

Recommendation 3.3: Support provincial and municipal governments efforts to streamline permitting and approval processes to speed up construction and reduce project financing costs.

Recommendation 4: **Improve affordability** and support the housing needs of Canadians **through the mortgage system.**

Recommendation 4.1: Provide first-time buyers with the option of 30-year amortizations for insured mortgages.

Recommendation 4.2: Implement previously announced change to the benchmark qualifying rate for insured mortgages.

Recommendation 4.3: Leverage the stress test to incent longer-term mortgages for better financial system stability.



Recommendation 5: **Accelerate achievement of Canada’s climate goals as they pertain to housing by investing in innovation** to find and increase market adoption of energy efficiency measures that don’t reduce affordability.

Recommendation 5.1: Introduce a permanent energy retrofit tax credit using the EnerGuide Rating System.

Recommendation 5.2: Bolster the EnerGuide Rating System infrastructure to serve as the backbone to all energy-efficiency programs.

Recommendation 5.3 Invest in R&D to find energy efficiency measures that do not reduce affordability; regulation should only come after affordable solutions are found.

Recommendation 6: **Help seniors age in place** by collaborating with CHBA to educate homeowners/caregivers and ensure that home modifications are delivered by reliable, trained, and transparent experts.



## Introduction

As we look towards recovery from the COVID-19 pandemic, several things are clear. A home is more important than ever to Canadians, and the serious affordability challenges and housing supply shortages that existed before the pandemic persist now. Homeownership is an essential part of ensuring that Canadians have a safe and healthy place to live, work, and relax. With 94 % of Canadians wanting to own their own home, there is more we can do to support homeownership and a robust economic recovery, while also maintaining stable markets and avoiding excessive house price escalation.

Homeownership by individuals and families, who will own and occupy a home, and set down roots creates the kind of resilient community that is needed now, more than ever. Rather than oversimplifying a response to complex affordability and supply challenges by focusing on increased rental and trying to suppress demand, we must work collaboratively to ensure that homeownership is accessible to those well-qualified individual and family would-be buyers, freeing up rental housing, and contributing to a healthy housing ecosystem.

Residential construction of all forms—low-rise or high-rise, for ownership or rental, is a critical part of the economy and a key source of employment. Prior to COVID-19 the sector was contributing 1.3 M jobs, \$83B in wages and \$142.6 B in economic activity to Canada's economy<sup>1</sup>. Whether it is building new homes or renovating existing ones, residential construction can and should be a key part of economic recovery—a source of jobs in every community as we seek to put the best rooves possible of the heads of Canadians.

The enclosed recommendations will support the economy, the sector, and help Canadians realize their aspirations for a safe and secure home that meets their budget and their needs, while also supporting overall economic stability.

## RECOMMENDATIONS

### 1. SUPPORT A RESILIENT RESIDENTIAL CONSTRUCTION SECTOR

As Canada looks toward recovery, it is imperative that businesses—especially small and medium-sized ones—be able to secure the financing they need to continue operations and recover, and have flexible solutions to manage sales defaults, delayed closings, damaged sales cycles, credit needs and other financial challenges. CHBA recommends that the federal government continue to **work with banking sector to ensure healthy cash-flow and liquidity in the financial system through recovery**, to meet the credit requirements of businesses and scale up construction over the longer-term (possibly leveraging federal vehicles like the Business Development Bank of Canada, or other agencies).

### 2. STIMULATE THE ECONOMY THROUGH LOWER HOUSING COSTS

While some housing markets appear to be rebounding, with pent-up demand and limited supply keeping prices stable, disruptions in residential construction, as well as systemic supply shortages in many areas, will exacerbate housing affordability challenges. A sustained recovery will require longer-term stimulus and support from the federal government.

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## **GST**

CHBA recommends using the GST to incent activity and improve affordability by temporarily **removing GST/HST on new housing to improve affordability through 2021, and then updating and indexing the existing GST/HST New Housing Rebate to better reflect house prices thereafter**. The eligibility threshold for the rebate should be raised to \$500 000 and a reduction for homes between \$500 000 and \$750 000 implemented. Currently an eligible new home buyer can claim a rebate for 36% of the federal portion (5%) of the GST paid on a new home with a pre-tax price less than or equal to \$350,000. Where the pre-tax price is more than \$350,000, but less than \$450,000, the rebate for the GST is gradually clawed back with no rebate for homes priced above \$450,000. The average cost of a home as of May 2020, was \$494,500, down 2.6% from the same month the previous year<sup>2</sup>. The rebate should be indexed to adjust annually to keep up to changes in house prices and help middle-class Canadians across the country better afford homeownership.

To stimulate purpose-built rental construction and maintenance, CHBA recommends **exempting 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.

### ***Temporary Tax Credit for Renovation***

Canadians have developed a new appreciation of what home means and what they need to make it work for them and their families. To stimulate economic activity, help Canadians adapt their homes to their needs (and to protect against lost revenue due to underground economy activities), CHBA recommends the **introduction of a temporary home renovation tax credit for all types of home renovations for work performed before December 2021**. Eligible renovations could include renovations or any enduring alterations to a building and should be stackable with the existing accessibility renovation credits, and any other renovation or retrofit tax credits or rebates introduced. CHBA analysis has shown that the tax revenue generated from curbing underground economy activity can make this program near cost neutral. CHBA also recommends a permanent energy retrofit tax credit (see below).

## **3. FEDERAL INFRASTRUCTURE FUNDING AND LEADERSHIP IN SUPPORT OF NEW SUPPLY**

As local governments face significant revenue shortfalls, there is a risk they will look to offset it through increasing development charges, which, on average, constitutes up to 13% of the average cost of a house<sup>3</sup>, which will be borne by the home buyer, affecting affordability. CHBA recommends changes to federal and provincial funding programs to municipalities to **allow federal transfers to be used by local governments to offset development charges and other fees on housing** to support housing affordability without loss of revenue to municipalities and **ensure core municipal infrastructure projects support creating new or upgraded serviced land for housing** in order to stimulate construction of new housing of all types and improve affordability. CHBA further recommends supporting provincial and municipal governments in **streamlining permitting and approval processes** to get back to building needed housing quickly (and also reduce carrying costs through construction delays).

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<sup>2</sup> National Average Sale Price, 2020. The Canadian Real Estate Association. Accessed July 9, 2020 from <https://www.crea.ca/housing-market-stats/stats/>

<sup>3</sup> CHBA, 2020



#### 4. THE ROLE OF MORTGAGES IN AFFORDABILITY AND RECOVERY

The purpose of mortgages is to make homeownership accessible and affordable through stable long-term financing. Finding the right balance in mortgage rules to maintain stability while also supporting the needs of buyers and a recovering economy and jobs is essential. It is also important to enable those Canadians still in a position to buy homes to do so, creating vacancies in rental that others can fill—80% of newly available rental units each year historically come from renters vacating them to become first-time buyers.<sup>4</sup>

CHBA recommends **improving housing affordability, especially for first-time buyers, by giving them the option of 30-year amortizations for insured mortgages**. 30-year amortizations are already available for uninsured mortgages. This measure will lower monthly costs for would be homeowners, while still leaving them options to accelerate payments and reduce their amortization periods over time. This is a no-cost measure that will in fact bring in additional revenue into government through CMHC, which in turn can be used to support housing measures across the continuum.

CHBA recommends keeping artificial barriers to homeownership low, as interest rates rise, by making the mortgage stress test more responsive to economic conditions, including **moving forward with the previously announced change to the benchmark qualifying rate for insured mortgages as soon as appropriate** (with OSFI making a mirrored change for uninsured mortgage) and **incenting longer-term mortgages to better mitigate risks for Canadians and financial institutions, by stepping down the 200-point buffer on the qualifying rate for stress-testing mortgages the longer the term, including eliminating it altogether for 7- and 10-year terms**. The Bank of Canada has recommended having more 7- and 10-year mortgages in the Canadian market, and the financial situation of homeowners is typically much stronger after the 7- or 10-year period.

#### 5. ACCELERATING CLIMATE GOALS THROUGH INNOVATION

CHBA recognizes the need and is a leader in making progress on climate change, but recognizes that broad adoption of energy-efficient technology can only be successfully achieved through innovation, better consumer energy literacy and incentives to energy retrofit, not codes and regulations that increase housing costs.

To align stimulus with other federal priorities, including advancing Canada's climate goals, CHBA recommends **the introduction of a permanent energy retrofit tax credit using the EnerGuide Rating System**, (complementing the short-term stimulus broader renovation tax credit) that will also help bring underground economy activity above-board, and promote better energy literacy to ultimately secure deeper emission reductions. CHBA further recommends **bolstering the EnerGuide Rating System infrastructure to serve as the backbone to all federal energy-efficiency programs**. The federal government should also work with provinces to adopt the system for their all provincial and utility incentive programs to improve coordination and outcomes.

CHBA also recommends the **federal government increase investment in research and development** to find energy efficiency measures that do not reduce affordability. Regulation should only come after affordable solutions are found.

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<sup>4</sup> Pomeroy, S. and Lampert, G., 2017. CHRA, [https://chra-achru.ca/wp-content/uploads/2018/11/2017-12\\_background\\_dynamics-tenure-system\\_implications-nhs.pdf](https://chra-achru.ca/wp-content/uploads/2018/11/2017-12_background_dynamics-tenure-system_implications-nhs.pdf)



## 6. SUPPORT FOR SENIORS AGING-IN-PLACE

As Canadians begin to contemplate the full impact of Covid-19 on vulnerable populations, providing additional options for seniors to age-in-place will become increasingly necessary. CHBA has been advancing industry education and training, technological innovation, and consumer information to help ensure that seniors who do pursue home modifications are able to access reputable and trained experts to undertake that work. CHBA would welcome the opportunity to collaborate with the federal government to further advance these tools to support seniors. These activities also contribute to protecting vulnerable Canadians from fraud and addresses the underground economy.

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With Canada's economic recovery dependent on all industries working well, the above measures can support the residential construction sector while addressing housing affordability and other policy objectives. Let's get building and rebuild Canada's economy together.