Pre-Budget Consultation Submission for the 2025 Federal Budget for the Department of Finance

Canadian
Home Builders'
Association

Introduction and Overview of the Industry

On behalf of the of the Canadian Home Builders' Association (CHBA), we are pleased to submit recommendations to the Department of Finance ahead of Budget 2025.

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. CHBA members are largely comprised of small- and medium-sized businesses.

Residential construction, for both new housing and renovation, accounts for 880,000 jobs across the country – jobs in every community - representing $62 billion in wages, and $182.8 billion in investment. 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, has recently released the 2024 Q4 results. The results show a further decline in the sentiment of Canada's homebuilding industry, a result of current poor selling conditions for both single-family and multi-family homes through Ontario and British Columbia, with other areas of the country also dipping since the previous quarter, and a weak outlook for the near future. CHBA's HMI is a proven indicator of housing starts that can be expected in six months and beyond, signaling that housing starts, especially for ownership, will not be increasing to meet the supply needed to overcome affordability challenges that are driven by a lack of options. Although the Bank of Canada delivered a sixth consecutive rate reduction on January 29th, mortgage interest rates are only falling about half as fast as the Bank's rate, and roughly a third of HMI respondents said rates need to further lower to improve their outlook on future sales.

And this negative sentiment, pointing to lower housing starts, was prior to the negative impacts of the trade war underway with the U.S. Even the on-again-off-again nature of the tariffs is affecting consumer confidence already, deterring purchases and renovation investment.

More on the tariffs below, but even without them, lack of supply, rising development taxes, more stringent building codes, municipal process delays and more, have driven up home prices; meanwhile interest rates and ever-tightening mortgage rules have made it much harder to finance housing purchases, preventing many would-be first-time buyers from entering the housing market. This keeps them in rental units and causes further shortages in the already overstretched rental market, reducing the availability of rental units and driving up rents. The dream of homeownership is still important to most Canadians, and fulfilling it is essential in getting our housing continuum working again. But homeownership rates have dropped over the past decade, from nearly 70% in 2011 down to 66% in 2021, and this erosion is causing stress all through the continuum, including the rental market and right back into social housing.

It is essential that the government continues to recognize the importance of doubling housing starts to make up the 3.5-million-unit housing deficit. This will be even harder in a trade-war environment. The recommendations contained in this submission are a roadmap that the government should follow to ensure that the proper policies are in place to help create conditions for getting more homes built and addressing affordability challenges, irrespective of a trade war but all the more important given that factor.

A Note on U.S. Tariffs and Canadian Countervailing Tariffs

The home construction sector is extremely concerned about the current tariff war. The greatest impact of U.S. tariffs will be on Canada's overall economy. A slowing economy invariably means slowing housing starts, which will have expansive repercussions on housing supply, Canada's residential construction industry, and long-term affordability.

CHBA's number one recommendation on tariffs is to **avoid Canadian retaliatory tariffs on construction materials**. Where counter tariffs are necessary, CHBA has been working closely with government officials to provide advice to best target U.S. imports with the minimum impact on Canadian businesses and construction costs, for example by looking to product categories where there is ample supply from other countries to turn to. We thank the government for the collaboration thus far and recommend continued engagement with CHBA as well as other construction industry associations to avoid impacts on Canadian housing and infrastructure as much as possible moving forward.

The top objective needs to be to end the trade war as quickly as possible, but obviously on fair and acceptable terms for Canada. In the meantime, **federal actions to help offset the damage to housing affordability and supply as a result of the trade conflict includes removing the GST on new home construction and continuing to pressure municipalities to reduce development tariffs (and find alternate funding models)**.

All of CHBA's recommendations that follow are about improving housing affordability and supply, and all will be even more important if and as a trade war continues, given the negative impacts that will have on our housing system.

Housing Affordability and Supply Recommendations (with or without tariffs)

Housing Affordability and Policies Aimed at the First-Time Home Buyer

It is important to understand that the home construction industry cannot build houses unless there are buyers to buy the homes. Affordability is determined by three factors: house price; income; and mortgage rates and rules. To get house prices down, we need more supply, yet we cannot get more supply if people cannot qualify for a mortgage.

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. Historically, 80% of new rental supply typically comes from people becoming first-time home buyers and vacating rental units. When would-be buyers cannot buy homes, as is now the case, they stay in their rental units, causing stress on the rental market as well. A healthy housing continuum includes robust market-rate housing options, including diverse pathways to homeownership, supported by sound mortgage policies.

CHBA was very encouraged by the federal government's return to 30-year amortization periods on insured mortgages for first-time buyers and for newly constructed homes, along with the increase to a $1.5 million cap. These are very important changes that will enable more well-qualified buyers to access mortgages and become homeowners, which will drive more housing construction and supply. **CHBA asks that this be maintained, and that the $1.5 million price cap be increased with inflation annually**.

CHBA also **recommends eliminating the GST on homes less than $1 million and have a declining rebate for homes up to $1.5 million**. Further, CHBA **recommends increasing limits to $1.5 million - $2 million in expensive markets**. GST limits need to be indexed with inflation annually moving forward as well. It is also important to **include all accessory dwelling units and secondary suites as eligible for these new construction GST waivers**, given they are new housing units.

There also needs to be a concentrated effort and leadership by the federal government over all government and agency policies, including regulators, to restructure other elements of the lending environment as follows:

Stress Test

Stress Test – Insured Mortgages: While OSFI states that the stress test (Minimum Qualifying Rate) is not used as a tool to manage the demand for housing, the fact is that it had done just that, resulting in falling homeownership rates and less supply. **It is time for a more dynamic stress test (for both insured and uninsured mortgages) that would reduce or eliminate the stress test's barrier to accessing mortgages with interest rates at their current levels.** A dynamic stress test that reflects the market would increase at lower interest rates, providing more stability to the financial system, while also avoiding rapid price increases when interest rates fall. A dynamic stress test would then decouple the housing market to a degree from the interest rate cycle, reducing booms (and price acceleration) in very low-interest rate environments and lessening slowdowns in higher interest rate times, better supporting the industry and homebuyers, while also enabling more housing supply.

Stress Test – Uninsured Mortgages: As OSFI's overly restrictive mortgage rules have led to declining homeownership rates, **it is important for the Department of Finance to reassess its policy of following OSFI's guidance in setting its own stress test for insured mortgages**. Insured mortgages (provided by CMHC and private mortgage insurers) are more restrictive to begin with, and a different product because of their insured nature. A less stringent stress test should be implemented for insured mortgages.

Stress Test and longer-term mortgages: 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 term**, 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. Adjustments to the stress test will provide more purchasing power for Canada's next generation, address growing inequities in mortgage access, and deliver financial benefits to younger Canadians and Canada as a whole, without causing undue risk. By the time their first 5-year term is up, most first-time buyers have a higher household income 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 are that they are actually paid out in much less time – about 18 years).

OSFI and Access to Financing

CHBA is also asking for more federal oversight of OSFI implementing Basel IV on an accelerated timeline. The Basel Accords are international banking standards and OSFI is requiring banks to implement these reforms on an unnecessarily accelerated timeline, by mid-2026. Implementation may require banks to shed up to $270 billion in risk-weighted assets to meet the output floor by mid-2026. This would reduce lending to firms and households, including mortgage credit, by about 9% of current nominal GDP at a time of elevated financing needs. OSFI requirements to shed assets (or raise capital) run counter to efforts to raise investment and improve access to the housing market for Canadians. They will also reduce investment that can increase productivity in construction and all industries. By contrast, The United States appears to be reconsidering implementation of some of the Basel reforms while the UK and Europe are not fully implementing until 2030 and 2032 respectively. OSFI should be required to step back from Basel IV implementation, given the other issues plaguing the housing crisis and Canada's economy.

CMHC Construction Financing

The tightening of underwriting practices both regulated and voluntary within financial institutions' own practices is making it more and more difficult to build housing, especially multifamily housing which is so important for more affordable units, higher density neighborhoods, and infill development. While CMHC has construction financing for rental housing, there is no such support for construction financing for housing for homeownership, and that is now needed. **CHBA recommends both low-interest financing for market-rate housing for ownership from the government, plus a new construction loan insurance program for financial institutions** to unlock more private capital for the construction of housing for homeownership.

CHBA is also deeply concerned about recent changes to the CMHC MLI Select Program and the increased costs that are placing upon the development of purpose-built rental units. The reduction in energy efficiency points awarded are resulting in projects being more expensive to build, which translate into higher rents for renters. **CHBA asks that these changes be reversed, and that more CMHC financing be devoted to both MLI Select and the Apartment Construction Loan Program** (for standard rental housing) to increase the supply of purpose-built rental units.

It is also critical to recognize that investors play an important role in financing the development of adequate supply of housing in Canada. CMHC estimates that to fill the 3.5 million housing unit gap will take an investment of at least $1 trillion and recognizes that the vast majority of that must come from the private sector. Efforts to limit investment in housing run counter to the goal to get much needed supply built, and this includes the excessive regulation on foreign investors. It is time to r**evisit the myriad of regulations that have practically eliminated the foreign investment needed in our larger centres**, and to adjust this regulation to enable foreign investment to support more housing supply without driving up house prices through excessive speculation or simply parking of foreign funds in real estate – this can be done through smart regulation, which is needed to get markets like the GTA moving again.

More Action on Development Charges

Development charges have gone up some 700% over the past 25 years in Canada, and now in Ontario, for example, government-imposed charges account for 31% of the cost of a new home on average. While it is positive that the recent federal housing plan called for a three-year freeze on increasing development charges through the new Canada Housing Infrastructure Fund, more effort needs to be done so that development charges don't just get frozen but are reduced. **CHBA recommends that the federal government work with the provinces and municipalities to develop new funding models as an alternative to development charges, for housing-supportive infrastructure and transit. Such a model should spread the cost of these and other amenities that all citizens benefit from across the broader tax base, and not just the buyers of new homes.** Already in Canada, it is very evident that cities with low development taxes and smarter funding models have much better housing outcomes. Conversely, those cities that have become excessively dependent on ever-increasing development taxes are seeing major affordability challenges, worse housing outcomes, and it is now quite evident that high development taxes are part of the reason for the generational unfairness for those trying to buy a home now versus those that bought 20 years ago, especially in our larger urban centres.

Remove Barriers and Red Tape within the Home Building Process

While the federal government is rightly looking to municipalities to cut red tape (and this must continue), it is important to note that the federal government itself, at the same time, is introducing red tape of its own that is needlessly getting in the way of building more homes while also unnecessarily driving up house prices. The industry has been severely impacted by the lack of understanding of the sector, the insufficient pre-consultation with industry, or frankly the blatant disregard for how policies will negatively impact the building of more supply.

Unfortunately, there are still many government policies and red tape that continue to contribute to putting homeownership out of reach. To correct this, **CHBA recommends putting every federal policy and program through a housing supply and affordability lens** and adjusting accordingly. It is vital that the federal government ensures its own economic policies do not run counter to efforts to increase housing supply. It is important that all federal departments and agencies work in close consultation to make sure that individual departmental actions do not stifle housing supply.

The following are just some recent examples of government policies that have caused undue red tape and cost increases, all of which slow down building more homes. Prior engagement and an effort to understand the home construction sector would have prevented these unnecessary and unsuccessful actions. On some of the items listed below, CHBA has been able to secure adjustments, interpretations, or full reversal, but this only comes after a protracted and laborious engagement with government officials and policymakers, after initial implementation of the red tape that must later be adjusted.

- **Underused Housing Tax** – While we were finally able to get home builders exempted from this red tape for 2023 and beyond, initially home builders and developers were not exempted (only REITs and publicly traded companies were). To make home builders file individual returns for each unit for a tax that they are not required to pay was the height of red-tape absurdity.
- **Bill S-211 (Forced Labour in Supply Chains Reporting Requirements)** - this Bill transfers some responsibilities with preventing the importation of products that use exploitative labour away from law enforcement and border security and onto businesses. While we were finally able to get government to recognize the different legal treatment between real property and goods, so that builders/developers would not be erroneously caught up in legislation, this again took over a year, forcing industry to comply unnecessarily.
- The Association continues to call on the federal government to fix the red tape surrounding **trust reporting requirements** so that condo pre-construction deposit trusts are excluded, since the information is already available through FINTRAC. The Department of Finance agrees with this view, introducing an amendment to the *Income Tax Act* in a legislative proposal in August 2024 that would have given reporting exemption to these specific trusts. Due to the fact this and many other proposals did not receive the opportunity to be introduced in a bill, the exemption will not take effect, and as a result costly compliance will be required yet again for the 2024 tax year. CHBA asks that the Department of Finance and CRA **place a moratorium on assessing non-compliance penalties for these specific trusts until the amendment issued by the Department of Finance can be passed to correct the situation**.
- **Pileated Woodpecker Nests and Other Species at Risk Regulations** – current regulations require an empty nest to be protected, monitored, and remain empty for 36 months, even if another species of bird has taken over the nest. This is stalling site work and causing building permits to expire, adding further costs and delays. This, along with other species at risk initiatives currently being developed through Environment Canada without due realistic consideration of the housing needs of

Canadians, are hampering the building of much-needed housing and a prime example of where government department actions are running counter to one another.
- **Proposed Vacant Land Tax** – proposed by the government based on the erroneous thought that developers are sitting on developable land hoping to profit from rising land values, when in fact they simply can't move on development because of market conditions, municipal delays, or other factors. A tax will only further hamper the affordability challenges the country is facing and a tax on a sector currently facing a stagnant business environment does not incentivize construction and new housing supply. There are several factors why land is not being developed (high interest rates, delays in municipal processes, and labour shortages, to name a few) that are not being taken into account with this proposal. Again, this is a reflection on the lack of understanding about the home construction sector thrusting inappropriate red tape in means counter to meeting the government's own housing objectives.

The sector can no longer be the target of poorly thought-out policies that take away from building more supply. Furthermore, home buyers should not be the ones who ultimately pay for these poorly thought-out policies.

Avoid Adding Costs through Codes and Regulations

Many new policy directions that put pressures for more stringent codes and regulations, such as climate change mitigation, resiliency, accessibility, are very important but expensive. 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.

CHBA recommends the adoption of affordability as a core objective of the National Building Code and all related standards to ensure we are building better, more efficient houses for the same price or less moving forward.

Additionally, CHBA recommends the following:

- **Establish a National Building Code Interpretation Centre with interpretations that are binding for all municipal building officials.**
- **Dedicate funding for research and development to reduce the cost of construction.**
- **Work with provinces to harmonize all building and development related municipal regulations to eliminate and prevent barriers to rapid deployment of housing.**

- **Reconstitute the Standing Committee on Housing and Small Buildings for the National Building Cde to better focus on the very different requirements of housing.** It is currently included with commercial and institutional construction.
- **Avoid spreading limited housing resources across the new 13 committees on the National Code** and return to a model similar to the **Standing Committee on Housing and Small Buildings** (NBCC Part 9)**.**
- **Invest in innovation and R&D for lower or neutral-cost solutions** that promote energy efficiency, climate adaptation and resilience, accessibility, and health and safety. **Do not regulate until cost-neutral innovations are available.**
- **Provide incentives for Net Zero Ready Homes, to reduce costs and accelerate technology development and adoption.**

The key to addressing climate change within home construction is to improve the existing housing stock. Today's new houses are already very efficient and will continue to become even more efficient. In order to address climate change in the sector, it is critical to address existing housing. Therefore, **CHBA recommends that the government supports EnerGuide labelling at the time of resale on homes, including investing more to support the EnerGuide system (including its software platform), and continue to provide incentives for home retrofits**.

Address Labour Shortages

Canada does not have enough workers to meet the status-quo, let alone double housing starts. Labour shortages in the residential construction sector are expected to worsen, with an estimated 22% of workers expected to retire by 2033. In addition, to build the 5.8 million homes over the next decade needed to address affordability challenges (as set out by government targets), the residential construction workforce will need to grow by 83% above 2023 levels – to just under 1.04 million workers.

Current government funding and programming **does not adequately address workforce challenges in the residential construction sector**. In dispelling some of the common myths about the residential construction workforce, it is important to remember that the home building sector is:

- **Different from the industrial, commercial, and institutional construction (ICI)** sector and has **entirely separate needs**
- Largely made up of SMEs, many are **micro-businesses with less that 5 employees**
- Largely **not unionized** (outside of the GTA and Quebec) – which means looking to the employers (and not unions other than in select regions) to properly assess the

labour needs of the industry, and to systems that better support small businesses (outside of Quebec, less than 10% of the industry is unionized, according to Statistics Canada).

Not adequately supported by the apprenticeship system There are three pillars to address the labour shortage. All three contain CHBA recommendations on how to address this chronic issue.

1. ***Grow the Domestic Work Force***
    - **Invest in CHBA's proposed "Talent Pipeline Concierge Service for Employers"** to significantly ramp up workforce capacity, better match qualified workers with jobs in the sector, and respond to the ebbs and flows of the market. The goal of this initiative is to develop robust talent pipelines and sustained pathways that will attract and develop workers for the residential construction sector to help employers hire and effectively onboard, as well as retain and promote workers. This will include workforce development appropriate for the needs of the industry and the workers it needs, and be complementary to and integrative with, but not soley focused on, the apprenticeship system. This will be done through the creation of a national system delivered through local concierge services in locations across the country.
    - Through additional programming specific to the home building sector, **encourage more Canadians to choose a career in residential construction, particularly youth, women, Indigenous populations, and other equity-deserving groups**. As a country, we need leadership to demonstrate these are good and valued careers and support the people who choose them.

2. ***Update the Immigration System***
    - CHBA fully appreciates that immigration puts pressure Canada's housing affordability challenges. But **robust immigration pathways for residential construction are imperative to address the sector's workforce shortages and build the homes needed to restore affordability**.
    - **Enhance category-based selection for Express Entry to support the specifics of the residential construction sector, including bringing in TEERs 3, 4, and 5 workers**, such as installers, framers, and general labourers and helpers.
    - **Update the National Occupation Classification System to properly reflect occupations in residential construction** (and reflect the differences

between residential construction and institutional/commercial/industrial construction)
- **Work with employers to facilitate labour market integration for newcomers** and set them, businesses, and the sector up for long-term success – this would be included as part of CHBA's Talent Pipeline Concierge Service.

3. ***Supporting Increased Productivity***
    - Factory-built construction offers many opportunities to increase productivity, though it is not the magic bullet answer that many want it to be. While there are many opportunities, but also many barriers to overcome in order to industrialize the sector.
    - **Implement recommendations from CHBA's Sector Transition Strategy**, including:
        i. Financial System, Regulatory and Policy Support from all levels of government to create a conducive business environment
        ii. Targeted Programming for the transition
        iii. Strategic Financing to de-risk investment increased overhead
        iv. Investment Tax Credits to accelerate investment in capacity
    - **Invest in CHBA's Factory-Built Construction Hub** for information and training for builders and building officials; addressing regulatory barriers; innovation in factory-built systems; concierge service for government transition funding
    - **Work with employers to facilitate labour market integration to attract, train and retain workers into factory-built construction**.

Conclusion

The government has taken many steps in the past couple of years to put in place better programming and policy to support better housing affordability and more housing supply. But per the recommendations above, there have also been steps backwards, and many important policy changes still need to take place. The home building sector can no longer be the target of poorly thought-out policies that take away from building more supply. Furthermore, home buyers are the ones who ultimately pay for these poorly thought-out policies. In order to achieve more housing supply and better affordability, all levels of government need to treat the home construction sector as a partner and help create the conditions in which the industry can build the supply needed to help restore affordability and to unlock the door to homeownership. 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.