



Association canadienne
des constructeurs
d'habitations

Suite 500
141 Laurier Avenue West
Ottawa, Ontario
K1P 5J3

613-230-3060
chba@chba.ca
www.chba.ca
@CHBANational

Federal Government's Response to the COVID-19 Pandemic

Submission to the Standing Committee on Human Resources, Skills and Social
Development and the Status of Persons with Disabilities

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On behalf of the Canadian Home Builders' Association (CHBA), representing some 9,000 member companies in the residential construction industry, thank you for the opportunity to provide our assessment of and recommendations to improve the current federal emergency programming—to support rehiring, reopening and scaling up of operations as more sectors and jurisdictions reopen—and, recommendations to accelerate and sustain recovery of the sector, the housing industry and the Canadian economy.

Pre-crisis the industry supported 1.2 million jobs, paid \$76.9 billion in wages, and generated \$160.8 billion in economic activity in Canada annually.¹ While residential construction has been permitted to continue in most jurisdictions to a certain degree, the industry has still been significantly harmed in both new construction and renovation through cancelled contracts and sales, extremely slow or non-existent sales, withheld progress payments, slowed inspections, loss of trades, and indefinitely delayed project closings (where the lion's share of revenue are secured after months or years of financing). This disruption has impacted businesses' cash flows, current projects and future prospects, resulting in layoffs. Based on a recent member sentiment survey, 52 per cent of respondents said their businesses were already feeling the effects of the COVID-19 pandemic and 42 per cent expect business to worsen for them over the next six months due to economic uncertainty and a slow recovery².

The sector is starting to feel the impact of supply chain and trade disruptions, including input supply shortages (lumber, steel and aluminum) and price increases, that are creating new challenges for the industry and will affect closings, costs, prices, and housing supply. For example, one leading large builder-developer in southwestern Ontario has stopped new sales until they can more confidently price construction, having previously raised the cost of their new homes by an average of \$30,000 in response to higher and uncertain input costs. These kinds of choices will have economic ramifications for the business, residential construction jobs and the economy.

¹ Will Dunning Inc, 2018; Statistics Canada, 2018; CMHC, 2018

² CHBA, 2020

Over the long-term these disruptions will likely exacerbate housing affordability challenges, as the shortage of supply in many Canadian centres was already excessive and driving up prices. The severe drop in housing starts and permits issued this year will add to this shortage and likely contribute to increasing prices even more.³ New home building is critical for addressing housing supply issues—especially in areas of high demand and high prices.

While some markets are seeing initial rebounds in sales activity as the economy reopens—which is generating welcomed economic activity in those cities and communities, it is mainly being driven by pent-up domestic demand and the low-interest rate environment being maintained by the Bank of Canada. Sustained recovery will require federal action, recognizing the crisis has had deep economic impacts, especially on employment and immigration—two of the main drivers of housing market activity in Canada.

Throughout the crisis, it has become clear how important a home is to Canadians’ physical and mental health and safety and CHBA members remain committed to ensuring all Canadians have a home that meets their needs.

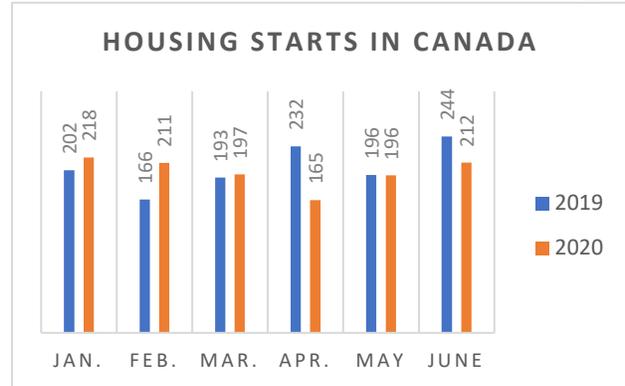


Figure 1: Housing starts in Canada, comparing first six months of 2019 and 2020

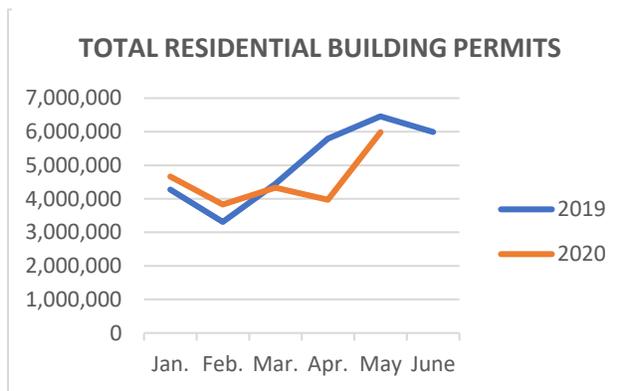


Figure 2: Total residential building permits, comparing first five months of 2019 and 2020

Assessment of Current Emergency Programming:

CHBA commends the federal government on the speed at which the emergency relief and credit programming has been introduced, responding to the pressing needs of Canadians and businesses in these challenging and uncertain times. The approach of implementing quickly and making adjustments along the way has indeed been wise, and CHBA appreciates both the speed and especially the willingness of government to list and adjust course. Some of the adjustments have indeed helped the residential construction industry. However, the nature of the residential construction industry has left many struggling companies and their employees out of the loop for assistance for long periods of time, which has impacted their rate of recovery and ability to avoid layoffs—CHBA is still assessing the degree new changes to the wage subsidy will address the Association’s concerns, but will happily follow-up with the Committee when more is known.

- **CANADIAN EMERGENCY WAGE SUBSIDY (CEWS)**

³ Statistics Canada, 2020

The wage subsidy is an important support for builders, renovators and other business in the residential construction sector trying to avoid layoffs and, where possible hire back employees who will be essential for business to bounce back when mitigation measures are eased. The business models in the residential construction sector vary considerably, and revenues, by the very nature of the business, can significantly change month-to-month and year-over-year.

Early changes to the reference period for CEWS and to allow cash method accounting responded to CHBA recommendations and were successfully enabling many more industry members to be eligible for the subsidy and support their workers, but it did not work for all businesses in need. The timing of individual business cycles and particularly home-closings cycle (and variable contract cycles for renovation) is making some eligible and others not in a way that is not reflective of actual current need to weather the pandemic impacts, which is why CHBA recommended allowing fair value of contracts signed” to be permitted as an interpretation or special case for calculating qualifying revenue (likely using the cash method). This would capture the steep decline in sales being experienced in the residential sector, which has and continues to result in layoffs, but in many cases cannot be captured by conventional cash or accrual accounting.

CHBA welcomes and supports the extension of the wage subsidy, as announced on July 24, 2020, through the fall. While the changes are not as straight forward as CHBA’s recommendation to allow “fair value of contracts signed”, they do reflect the Association’s feedback that the 30 per cent revenue decline test was too stringent and that many businesses that experience revenue drops of less than this amount are still heavily affected by the pandemic. And while it is expected the changes will help more members access the program, they have added much more complexity. CHBA is therefore recommending that:

1. Government must **work with industry on ways to provide further guidance and support to businesses**, especially small businesses, in navigating the new rules over the coming days and weeks.
 2. Government continue to **seek out and respond to feedback from Canadians and stakeholders** in respect to program eligibility, rollout and timelines as the COVID-19 crisis evolves and adjust accordingly to ensure business are truly able to bridge to more viable economic conditions.
- **CANADIAN EMERGENCY BUSINESS ACCOUNT (CEBA)**

As the crisis persists credit has become an important tool for many small businesses to bridge to and complement federal emergency relief programs, as evidenced by the high take up of CEBA, including amongst CHBA’s membership. CHBA’s recent member sentiment survey showed almost half of the respondents are applying or have applied to CEBA, and of those who were not, 20% of respondents

would like to, but either had payrolls of more than \$1.5 million, or less than \$20,000, a barrier which has since been addressed..⁴

CHBA was pleased to see the federal government respond to our input - and that of others - on the program's eligibility thresholds, lowering the minimum salary threshold, and providing opportunities for businesses with small payrolls, sole proprietors who receive business income directly and family-owned operations that pay family members in the form of dividends, to access the program. Roll out of the changes was slow, and there remains concerns about the qualifying criteria for under \$20,000 in payroll expenses, especially for home-based businesses, therefore CHBA recommends that:

3. The qualifying criteria be expanded to home-based businesses, or businesses that have moved their operations to their homes in response to COVID-19 to lower operating costs.

- **CANADA EMERGENCY RELIEF BENEFIT (CERB)**

The CERB has helped stabilize the Canadian housing market and economy during the peak of the crisis and until other programs, including the CEWS, were live and expanded to support more businesses. CHBA applauded the rapid roll out of the program in late March, and subsequent improvements to better address the evolving nature of the crisis. However, as more sectors of the economy are deemed safe to reopen and/or increase operating capacity, the CERB program should be adjusted quickly to ensure that it does not create an inadvertent disincentive to return to work, where it is safe to do so. Accordingly, CHBA welcomes the federal government's recent announcement it will transition from CERB to the federal Employment Insurance program this September, which should facilitate more safe returns to the labour force and support businesses as they seek the necessary workers to drive their and Canada's recovery. CHBA therefore recommends:

4. Considering new ways to incent, reskill and upskill workers to address labour requirements in residential construction and other sectors experiencing labour shortages.

And in the event of a second wave of COVID-19, CHBA recommends:

5. Maintain the employer-employee link where businesses are forced to close or scale back operations by leaning more heavily on a simplified CEWS.

Recommendations for Reopening Economy

Residential construction has long served as an important economic driver and source of high-quality and well-paying jobs for millions of Canadians, while creating ripple effects across a range of other industries. When people purchase new homes or undertake renovations, they also tend to make other big retail purchases, including furniture and appliances, and contract a range of service providers, including real estate agents, appraisers, energy auditors, bankers, and legal professionals. When construction is disrupted, as it has been as the industry and others across the economy, focus workers and clients' health and safety, it can have far reaching economic consequences.

⁴ CHBA, 2020

As more of the economy reopens and COVID-related restrictions gradually and carefully lift, the residential construction industry stands ready to help kickstart the housing continuum and scaleup residential construction writ-large to meet existing supply challenges, drive economic growth and create jobs.

To maximize the economic potential of the industry, CHBA recommends:

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.

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 year⁵. 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.

⁵ National Average Sale Price, 2020. The Canadian Real Estate Association. Accessed July 9, 2020 from <https://www.crea.ca/housing-market-stats/stats/>

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.

These recommendations should also help offset some of the escalating input costs on construction that is being borne by home buyers and renters.

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 house⁶, 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).

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.⁷

⁶ CHBA, 2020

⁷ 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

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.

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.

7. ADDRESSING SUPPLY SHORTAGES AND TRADE DISPUTES

Ongoing disruptions to residential construction supply chains and ongoing uncertainty around imported supply (lumber, steel, aluminum) are causing shortages, price escalations and impacting timelines (which could result in fees under some provincial warranty programs). The pandemic has added a significant uncertainty to the economy, and CHBA recommends the government continue to consider the aforementioned recommendations regarding housing supply to offset mounting construction costs and improve current trade dispute mechanisms (dumping and countervailing duties) to limit the disruption that these processes cause on markets.

Also, 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.

Thank you once again to the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities for this opportunity, CHBA would welcome the opportunity to present in-person or provide any follow-up information required to support this study and the valuable work you are doing on behalf of Canadians during the crisis.

For more information, please contact Nicole Christy, Manager of Government Relations, at nicole.christy@chba.ca or 613-230-3060 x241.