# Pre-Budget Consultation Submission for the

# 2025 Federal Budget for the Standing Committee on Finance

Canadian
Home Builders'
Association

## Introduction

Canada is facing a housing crisis. Housing affordability issues, including mortgage rules, have locked millions out of homeownership, which has limited building more supply and further driven up house prices. The Cananda Mortgage and Housing Corporation (CMHC) has rightly identified that we need to build 3.5 million additional houses over and above the 2.3 million we would normally build over the next decade to close that gap. This would require a doubling of housing starts.

Unfortunately, government policy at all three levels of government (which has led to this issue both in terms of lack of supply and high prices), and high interest rates, have housing starts falling instead of rising. The latest CHBA Housing Market Index shows the extreme effect that interest rate hikes are continuing to have on reduced housing starts. The 2024 Q2 results show that builders are expecting weak sales with fewer starts in the months (and in the case of multi-unit buildings, years) ahead. For an eighth consecutive quarter, both CHBA's single-family and multi-family Housing Market Index (HMI) showed very negative homebuilder sentiment—with values in the 30s (on a scale of 100).

While interest rates should come back to more normal levels over the next couple of years, that will not be nearly enough to create the financial situation to double housing starts. With the recognition of the crisis government policies federally, provincially, and municipally (to a degree) have started to change, but much more change is required.

## Need for More Mortgage Policy Change

It is important to understand that the home construction industry cannot build houses unless there are buyers to buy the homes. And over the past 15 years, since the sub-prime crisis in the U.S. it has become more and more difficult for first-time buyers to enter the market. Affordability is determined by three factors: house price; income; and mortgage rates and rules. To get house prices down, we need more supply; we can't get more supply if people can't qualify for a mortgage.

Since the sub-prime crisis, which Canada weathered exceptionally well because of the strength of the financial system already established in Canada (which was ranked for many years as the best in the world by the World Economic Forum), there has been a continued and excessive tightening of mortgage rules. This overtightening has locked out buyers, and especially first-time buyers, resulting in less supply. The cost of overtightening in the name of extreme financial stability has been falling homeownership rates, and a next generation being locked out unnecessarily from the dream of homeownership, contributing to an even more dramatic housing shortage. A strong financial system is important, but it is long past time to create a better balance that recognizes the strength of that system and adjusts mortgage rules to enable access to mortgages to well-qualified buyers. Changes to the mortgage rule system have no cost to government, have immediate impact, and can also help to decouple the housing market from the boom-bust nature of the market driven by the interest rate cycle, which limits supply in downturns and drives up prices in upturns.

The Budget 2024 announcement of 30-year amortization periods for first-time buyers on insured mortgages of newly constructed homes is an excellent step in the right direction. To build on that, **CHBA is asking for an expansion to make 30-year amortizations for all insured mortgages on new construction.** This will enable move-up buyers, still needing insured mortgages, to vacate their entry-level homes (making them available to other first-time buyers) and move on to their next newly built home, encouraging more housing supply. Restricting this to new construction will also drive more housing supply without putting pressure on prices in the existing housing market. That said, as the market turns around and much more supply is underway, it will make sense to extend 30-year amortizations on insured mortgages for the existing housing market as well, enabling more buyers to enter the market and driving demand for more supply.

**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:

*Office of the Superintendent of Financial Institutions (OSFI):*

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.

**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.

*Canada Mortgage and Housing Corporation (CMHC):*

As OSFI's overly restrictive mortgage rules have led to declining homeownership rates, **it is important for CMHC to reassess its policy of following OSFI's guidance in setting its own stress test for insured mortgages.** Insured mortgages 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.

**CHBA is also deeply concerned about recent changes to the CMHC MLI Select Program and the negative impact they will have upon the development of purpose-built rental units.** The reduction in energy efficiency points awarded are resulting in more projects being put on hold. **CHBA asks that these changes be reversed**.

## More Action on Development Charges

Development charges have gone up some 700% over the past 20 years 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 the development of a new funding model as an alternative to development charges, in collaboration with provinces and municipalities, for housing-supportive infrastructure and transit. Such a model should spread the cost of these amenities that all citizens benefit from across the broader tax base, and not just the buyers of new homes.** This is how it was done in the past, and ever-increasing 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.

## Remove Barriers and Red Tape within the Home Building Process

While the federal government is rightly looking to municipalities to cut red tape, it is itself, at the same time, introducing red tape 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.

It is time for federal action on its own newly introduced red tape. This includes:

- **Underused Housing Tax** – exempt home builders and developers completely (REITs and publicly traded companies are already totally exempted), including for the 2022 taxation year. To make home builders file individual returns for each unit for a tax that they are not required to pay is 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. Government must recognize the different legal treatment between real property and goods, so that builders/developers are not erroneously caught up in legislation.
- **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.
- **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.

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

It is important to ensure that by doing so 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, but almost all increase costs to housing. **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. To complement this, CHBA also recommends dedicated funding for research and development to reduce the cost of construction.**

## Address Labour Shortages

The chronic labour shortage in the industry is well documented. To address this, CHBA recommends the following.

**Update the immigration system to attract skilled workers specifically for residential construction.** This can be done by:

- Further enhancing the trades category-based selection for Express Entry to support the specifics of the residential construction sector, including bringing in TEERs 3, 4&5 construction assistants and labourers.
- Investment in employer-based concierges, such as that proposed by CHBA's Sector Transition Strategy, to liaise with nonprofit organizations, individuals and employers to ramp up labour capacity in the sector.
- Update the Canadian apprenticeship system to better serve the residential construction sector.
- Increase the viability and hence the capacity of factory-built construction systems through supportive policy that removes barriers to their use and derisking investment, as outlined in CHBA's Sector Transition Strategy.

## Conclusion

CHBA CEO Kevin Lee would be pleased 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.