



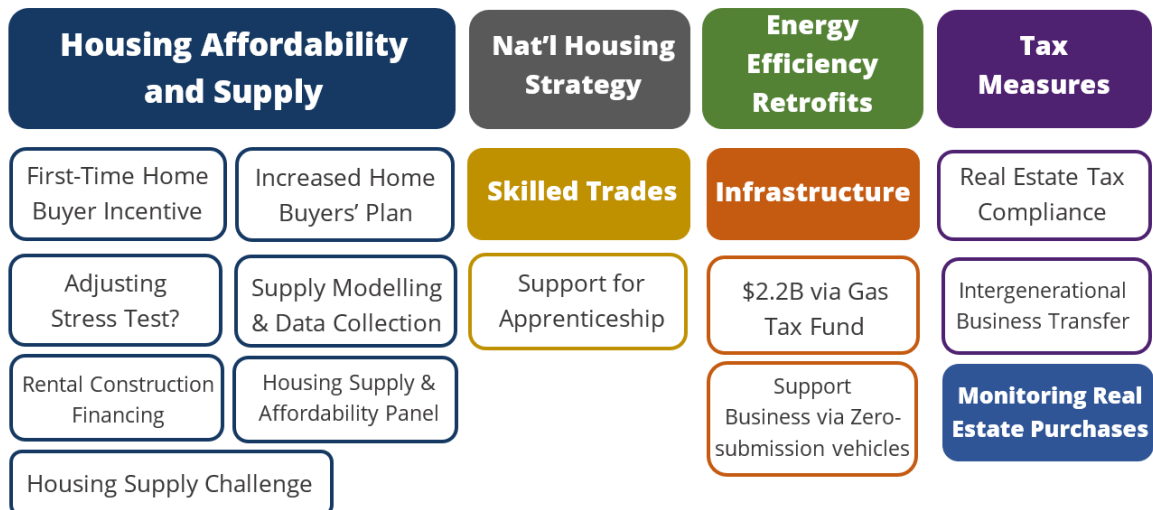
## MEMBER BULLETIN:

# 2019 Federal Budget – CHBA Highlights and Commentary

CHBA advocacy was very successful in recent months, putting housing affordability front and centre on the political radar. The results of the efforts showed in the [2019 Federal Budget](#) tabled this week, as housing affordability and a new First-Time Home Buyer Incentive program were the lead highlight. The document went on to focus on addressing housing supply, increasing the Home Buyers' Plan, and supporting home energy retrofits. It also alluded to potential future changes to the stress test (the domain of OSFI, not the government or Department of Finance). CHBA was invited to the Budget lock-up, participated in media scrums on the Hill, and issued its [media release](#) thereafter. CHBA will also host a [Budget review webinar for members with MNP this Friday](#). CHBA will continue to push for more action, like on the stress test, but there is no question the Association was very successful in getting housing affordability the focus of the budget.

This document contains more details on the Budget and commentary from CHBA.

## Visual Summary of Budget Inclusions that Affect our Industry



## Housing Affordability and Supply

*Commentary: In a [media release from the Prime Minister's Office](#) the day after the budget, the opening paragraph read like a line out of CHBA's Day on the Hill [infoguide](#): "Many young Canadians dream of owning their first home. With rising house prices, and not enough homes to meet demand, it is getting harder and harder to make that dream a reality. That is why the Government of Canada is taking important steps to make housing more accessible and affordable in Canada, especially for first-time homebuyers." It is clear CHBA's messaging has resonated. Here are some of the key line items related to this.*

### [A First-Time Home Buyer Incentive](#) – pages 23 and 24

Starting in 2019/20, the First-Time Home Buyer Incentive will provide up to \$1.25 billion over three years to eligible first-time buyers (approximately 100,000 first-time home buyers, according to government officials) to lower their borrowing costs by sharing the cost of buying a home with CMHC. CMHC would provide qualified first-time buyers a 10 percent shared equity mortgage for a newly constructed home (to incent new construction and new supply) and a 5 percent shared equity mortgage for an existing home. The equity would be paid back to CMHC at time of resale of the home. The program would be available to first-time buyers with a household income under \$120,000 per year.

In addition, CMHC would administer a fund that would provide \$100 million in lending to existing not-for-profit shared-equity mortgage providers over a five-year period.

*Commentary: CHBA has recommended shared equity mortgages for some time as a tool to assist renters with good incomes but limited savings for a down payment to move into homeownership. CHBA has undertaken studies on such programs and recently presented its recommendations at CMHC's National Housing Conference and a summit with financial institutions and the federal government.*

*Government officials estimate that this new initiative will help 100,000 Canadians achieve home ownership in the next three years. That level of impact would be in-line with what CHBA's proposed reintroduction of 30-year insured mortgages for first-time home buyers would have achieved, though it is focused solely on family-incomes below \$120,000. That said, with a mortgage maximum of \$480,000, plus 15% downpayment in equity (5% from the buyer, 10% from CMHC on new builds), entry-level homes (which would be condos in larger markets) are accessible.*

*While the Budget announced this measure, few operational details were provided. Reflecting this, CHBA has been invited for more detailed discussions with government representatives to help inform terms and conditions for the initiative.*

*Given that the Incentive will have an effective new home price limit of \$525,000 and only be applicable to families with income under \$120k, CHBA will also continue to recommend to all parties additional measures, especially with regards to the stress test (see below).*

*CHBA also noted that, while the new Incentive is welcome, it is just a first step to address the current affordability crisis facing first-time home buyers. The mortgage stress test continues to be a major barrier to home ownership, affecting some first-time buyers and many move-up buyers who can no longer afford to leave their entry-level homes.*

*CHBA has already expressed to officials that an accelerated roll out of the program is essential, as many regions are in need of relief as quickly as possible (and certainly the immediate role out of 30-year mortgages of first-time home buyers would have provided that—officials expressed concern however over sending too many buyers into the market too quickly in some regions and the effect that would have on prices—this initiative was viewed by government as a viable alternative to 30-year ams that would avoid increased debt and inflationary activity). CHBA will emphasize the industry challenges of delays with rolling this program and changes to the stress test.*

#### [A Modernized Home Buyers' Plan – page 25](#)

The budget provides a newly upgraded Home Buyers' Plan (HBP) for first-time home buyers with the ability to withdraw up to \$35,000 from their Registered Retirement Savings Plan (RRSP) – a \$10,000 increase from the current withdrawal amount of \$25,000. The new measure is effective immediately.

*Commentary: As noted in the media release, “increased limits for the [HBP] that will allow up to \$35,000 of RRSP savings to be put toward the purchase of a first home are also welcome, but should be coupled with changes to the stress test.”*

*In 2017, [CHBA informed the Commons Standing Committee on Finance](#) that “increasing limits to the First-Time Home Buyers' Plan, and allowing intergenerational RRSP transfers within the plan, could facilitate increased down payments and decreased homeowner debt.” CHBA included this recommendation in its Day on the Hill infoguide. CHBA had also recommended access to the program for major life changes, including a breakdown of marriage, which is now included.*

#### [Monitoring the stress test – page 26](#)

The Bank of Canada and other institutions have undertaken analysis outlining how the mortgage interest rate stress test is having its intended impacts. The Government will monitor the stress test and consider adjustments to support access to housing while safeguarding financial stability.

*Commentary: As noted in CHBA's media release, "CHBA continues to recommend that modifications be made to the current mortgage stress test, which has served to lock out too many well-qualified Canadians. CHBA has advised that with the market and interest rate changes of the past year, it is time to adjust the stress test accordingly." CHBA was successful in having the Liberal Housing Affordability Caucus make this a priority recommendation to the Minister of Finance last week. CHBA is also advising that current government housing production forecasts err on the side of optimism, given the actual downward trend in month-to-month indicators. CHBA will continue to point out these emerging realities to federal officials, to stress the changes in the market that do indeed indicate it is time to update the stress test.*

*It is also worth noting that the Budget was not the vehicle that would update the stress test. The stress test is the domain of the Office of the Superintendent of Financial Institutions (OSFI), and that is where any announcement of a change would have to come from.*

#### [Expanding the Rental Construction Financing Initiative: – page 27](#)

The Budget provides additional \$10 billion over nine years in financing through the Rental Construction Financing Initiative, extending the program until 2027–28. The increase will support 42,500 new units across Canada, particularly in areas of low rental supply.

*Commentary: CHBA supports the expansion and extension of the Initiative, in which a number of CHBA member companies have already taken part. CMHC was invited to CHBA's Urban Council meeting in the fall to engage officials and members in dialogue on the program and how industry can best make use of it, and what potential program changes could make it more accessible. CHBA has noted that the program is not well aligned in many cases with industry approaches and will be working with CMHC officials on how to improve the program to increase its uptake to the benefit of government, members and most importantly future occupants of these buildings.*

#### [Housing Supply Challenge – page 28](#)

The Government launched a \$300 million Housing Supply Challenge that invites municipalities and other groups to propose initiatives that break down barriers that limit the creation of new housing. Infrastructure Canada and CMHC will work together on the design of the new initiative and will provide details by summer 2019.

*Commentary: The 'Challenge' is in line with CHBA's ongoing calls for collaboration to address housing supply. Bringing together municipalities with other stakeholders, especially builders and developers through the Challenge will hopefully promote*

*innovation leading to increased supply. It reflects CHBA's call for regulatory reform to expand supply, especially in producing "missing-middle" housing forms and transit-oriented development. As the Challenge is rolled out, CHBA will engage and monitor its progress to ensure that it meets the intended goal of accelerating construction approvals and housing supply across Canada.*

*CHBA will also continue to press the Government and opposition parties alike to support [recommendations](#) that encourage the use of federal levers to help boost housing supply by collecting and sharing better data regarding supply issues across Canada; and leveraging federal transit investments and federal land write-downs to result in affordable, market-rate, mixed-use, mixed-income communities.*

#### [An Expert Panel on the Future of Housing Supply and Affordability – page 29](#)

The budget announced that it would commit \$4 million over two-years to support the work of a newly created Expert Panel on the Future of Housing Supply and Affordability that is being led by the Minister of Finance of Canada and British Columbia ([announced on March 15, 2019](#)).

#### [A new investment of \\$5 million over two years for CMHC to work on state-of-the-art supply modelling and related data collection – page 29](#)

*Commentary: These two announcements are welcome investments and CHBA will work with CHBA BC to ensure that the newly created Expert Panel will hear the concerns of both the national and BC residential construction industries. CHBA will also stress with CMHC the urgent need for national-scale residential supply modelling and associated data requirements so that the full range of market types and situations across the country can be addressed.*

### **National Housing Strategy**

The Government announced that it would introduce legislation that will require the Government to maintain a National Housing Strategy that prioritizes the needs of the most vulnerable and report regularly to Parliament.

*Commentary: From its early days of consultation and development onward, CHBA [has raised concerns about the scope of](#) measures contained in the Government's National Housing Strategy. As implied by the 2019 Budget, the Strategy in the end does not address the full continuum of housing requirements. CHBA will provide positive recommendations on how the National Housing Strategy can be improved when the proposed legislation reaches the Committee stage of the legislative process including the inclusion of measures announced in the 2019 Budget, which do take greater strides in recognizing and beginning to address market-rate affordability.*

## Skilled Trades

### Enhancing Support for Apprenticeship – pages 46 to 47

The budget will provide \$6 million over two years, starting in 2019-20 to create a national campaign to promote skilled trades as a first-choice career for young people.

It will also provide \$40 Million over four years starting in 2020-21 and then \$10 million ongoing to support Skills Canada in supporting a coordinated approach to promoting skilled trades

*Commentary: These measures are very welcome and directly in line with extensive CHBA advocacy in this area. CHBA has been calling for federal measures that will assist the full range of skilled workers and companies that are part of Canada's residential construction industry. On March 19, Budget Day, CHBA CEO Kevin Lee [informed members of the Commons Committee on Human Resources](#) studying the issue, "To address skilled worker shortages all across Canada, the federal government needs to take a lead role in promoting careers in the skilled trades. We have a cultural "parity of esteem" issue, where skilled worker careers are seen as lesser options than university degrees. This needs to change, and there is a federal role in leadership to be filled there." CHBA members will benefit from the activity to be undertaken by Skills Canada, with whom CHBA has a collaborative agreement to promote careers in residential construction.*

## Energy Efficiency Retrofits

### Funding in 2018-19 to be delivered through the Federation of Canadian Municipalities' (FCM) to help increase energy efficiency in housing – page 84

Community EcoEfficiency Acceleration (\$300 million) to provide financing for municipal initiatives to support home energy efficiency retrofits. Homeowners could qualify for assistance in replacing furnaces and installing renewable energy technologies. The FCM will use innovative approaches like the Property Assessed Clean Energy (PACE) model that allows homeowners to repay retrofit costs through their property tax bills.

Sustainable Affordable Housing Innovation (\$300 million) to provide financing and support to affordable housing developments to improve energy efficiency in new and existing housing and support on-site energy generation.

*Commentary: This announcement supports CHBA's call to address climate change through approaches that support residential retrofits as a priority. It will certainly lead to*

*work by CHBA renovators and those constructing affordable housing developments. CHBA will engage with FCM on ways to maximize the results achieved by this initiative, including using RenoMark renovators and tying the initiative to the EnerGuide Rating System—discussions with FCM have already begun on that front.*

## **Infrastructure Investments**

[One-time transfer of \\$2.2 billion delivered directly to municipalities through the Gas Tax Fund in 2018-2019 – page 82](#)

Eligible categories include roads, bridges, water and waste-water, disaster mitigation community energy systems, and brownfield redevelopment, sports and recreation

*Commentary: Two potential benefits that arise from this initiative are the possibility of more serviced land coming available over time and less incentive for municipalities to increase taxes on developments to fund infrastructure projects. In both cases, active engagement by HBAs will be essential to encourage these kinds of actions.*

[Supporting Business Investment in Zero-Submission Vehicles – page 82](#)

Full tax write-off of qualifying electric vehicles including light, medium or heavy-duty vehicles purchased by a business.

*Commentary: CHBA members can benefit from these incentives as business owners.*


## **Tax Measures**

[Intergenerational Business Transfer – develop new proposals to better accommodated intergenerational transfers of businesses while protecting the tax system – page 207](#)

*Commentary: This is a welcome follow-up to the successful CHBA campaign to revise the small-business provisions of the Income Tax Act in the autumn of 2017. It reflects deep concerns expressed by CHBA about impacts of taxation on intergenerational transfers of residential construction companies, and other firms in the industry. Working with MNP, CHBA will participate in commenting on these proposals as they emerge.*

[The Canada Revenue Agency \(CRA\) to receive funding to ensure that tax provisions are being followed – pages 31 to 32](#)

The budget will provide \$50 million over five years, starting in 2019/20, to create four new specialized audit teams in high risk regions to ensure that tax provisions regarding real estate are being followed. While this will primarily focus on capital



gains reporting from sales and assignment ‘flipping,’ it will also examine GST/HST collection and payments by builders and developers related to such transactions.

The budget will invest \$65.8 million over five years to improve the CRA’s information technology systems, including replacing legacy systems, so that the infrastructure used to fight tax evasion and aggressive tax avoidance continues to evolve – page 197

*Commentary: CHBA has been active in supporting work to address money laundering, most recently in collaboration with CHBA-BC and the BC Government; funding to fight money laundering as well as tax evasion and avoidance in real estate transactions is very important given their market-distorting activities.*

### **Monitoring Purchases of Real Estate – pages 32 to 33**

The budget will provide Statistics Canada with up to \$1 million over two years, starting in 2019/20, to conduct a comprehensive federal data needs assessment which would facilitate the streamlining of data sharing with other jurisdictions across the country to collectively improve monitoring of real estate transactions across Canada.

*Commentary: This data needs assessment is very welcome and complements CHBA’s own efforts to identify key gaps in current monitoring efforts. It will support anti-money laundering and tax compliance efforts in the real estate sector and may be helpful in detecting illegal activity.*