

June 26, 2020

Select Standing Committee on Finance and Government Services
Room 224, Parliament Buildings, Victoria, B.C.

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Submitted via the online consultation portal

Dear Committee members:

The Canadian Home Builders' Association of British Columbia (CHBA BC) is pleased to provide this pre-budget submission for 2021.

About Canadian Home Builders' Association of BC (CHBA BC)

CHBA BC represents over 2,100 members in the residential construction industry who work as home builders, renovators, tradespeople, service professionals, and others. CHBA BC members are small and medium-sized businesses creating jobs and economic benefits in all areas of the province.

Overall, the residential construction industry represents over 200,000 on-site and off-site jobs, \$11.9 billion in wages, and \$25 billion in investment value.

Economic Recovery and Good Jobs for British Columbians

In past years, we have focused on market housing options within our budget recommendations. With economic recovery and COVID-19 top of mind, this doesn't change. Our sector creates good paying jobs in all corners of the province and can play a leading role in economic recovery efforts.

As an example, a sample new home could lead to:

- Approximately \$3,800 in PST revenue on materials;
- Approximately \$10,600 in provincial income tax revenue;
- Five full-time equivalent jobs, three on-site and two off-site as suppliers; and
- Contracts for any of the 63 trades that could be involved in the building process, such as electricians, drywallers, painters, landscapers, etc.

In addition, success in these areas also ties directly to government priorities in place such as CleanBC and the 30-point housing plan.

COVID-19 taught us the importance of a safe, appropriate home in ways we didn't think of before. Therefore a focus on housing in this upcoming budget deserves our utmost attention and collaboration towards solutions for all aspects of the housing system, from homelessness to market ownership.

For this budget submission, we have split our priorities into two areas: short-term stimulus for COVID-19 solutions that could be one-time expenditures, and long-term changes.

Short Term Priorities

CHBA BC surveyed its members in May 2020 to understand the COVID-19 impacts to the residential construction industry. Although designated an essential service, the residential construction industry is not

immune to the economic effects of COVID-19, and in particular for new home and renovation contracts across the province.

Our respondents told us that:

- 46% had laid off between 1-4 employees, a significant number with a median staff size of 6.
- Half of the respondents noted an increase in municipal permit timelines, delaying potential worksite activities;
- 57% are using the Canada Emergency Business Account, and only 33% are using the wage subsidy, with many participants indicating the seasonality of construction means they don't qualify; and
- Members overwhelmingly (69%) state that their level of business since March 15 has seen a decrease.

Layoffs, permit delays and supply chain issues have all stymied workplace activity within our industry. Combined with a noticeable overall decrease in business, as noted by more than two out of three of our respondents, it all reflects that our industry can benefit from future government financial support and continue to play a key role in the economic recovery of British Columbia.

This injection of stimulus will be particularly needed in the next 6-12 months, this next budget period, when federal government programs, and members' existing contracts, will both end. New work can be incentivized through many different member suggestions, which we will outline below.

1. Consider short-term changes to the property transfer tax for new homes

The BC government should look to incentivize purchases in new construction. These homes create good jobs, are significantly more energy-efficient, and lead to tax revenue at the provincial and municipal levels. One clear way to incentivize new homes is through the existing property transfer tax system - it's easy to implement for a short period, doesn't create new programs, and could be used province-wide.

The current property transfer tax for new construction is exempt for purchases up to \$750,000. However, this does not benefit the move-up segment of the market or areas of the province with higher real estate prices - for example, a family in a small condominium that would like to purchase a house, townhouse or larger condo over \$750,000 would pay the full property transfer tax.

These examples of well-qualified buyers, particularly those who are already planning to move, could be incentivized by increasing the new construction exemption for a limited time. By moving into new larger inventory, it also increases the availability of inventory for others, such as first-time home buyers and renters.

We would recommend limiting the exemption below 1 million, which is the limit for insured mortgages. It could either take the form of a full exemption or a sliding scale, to provide a full exemption at \$750,000 and no exemption at 1 million.

2. Reduce PST paid on new construction materials

Contractors in new homes and renovations pay PST on almost all building materials, such as lumber and rebar, and finished materials, such as windows, doors, and skylights¹. Providing a modest decrease in PST for a specific period would be beneficial for B.C.'s economic recovery, particularly for contracts initiated this summer and fall. It also provides an additional incentive to consider new construction in 2020-21, particularly if it is a custom home or renovation that does not qualify for the property transfer tax rebate. The list of items exempt from PST could also be aligned with the economic recovery goals, such as supporting B.C. manufacturers and domestic products, so long as there are ample options available to builders and renovators.

In addition, any minor PST revenue lost as a result of the rebate would be exceeded by the income tax revenue and job creation sustained. We would encourage initiating this in the most straightforward way possible, which we are happy to help discuss in partnership with our builder members.

3. Incentivize renovations through tax credits

A particular area impacted by COVID-19 is renovations. Naturally, many renovation contracts were cancelled or postponed due to the stay-at-home orders. With strong safety protocols in place, renovations are safe in B.C.'s recovery plan if families work with a professional and follow the existing construction guidance.

A tax credit system ensures a professional is involved and the project is completed outside of the underground economy. We would recommend two approaches - one for general renovation work and a second stream for energy-efficient retrofits, which would tie to the CleanBC objectives. That would mean the maximum number of people would benefit, but those doing a retrofit have double the funding.

4. Address Speculation and Vacancy Tax on small volume projects for the year 2020

Vacant new inventory on projects above 5 units qualifies for an exemption. However, due to the economic challenges that COVID-19 presents, we are concerned that home builders with small-volume inventory - quadplexes, triplexes, and duplexes - could have vacant new inventory at next year's qualification period. Therefore, we recommend that the government specifically exempt these types of projects from next year's tax assessment so builders of small-volume inventory can continue their projects with confidence.

In the City of Vancouver, the same issue may exist for its Empty Homes Tax. We recommend the two taxes harmonize on this point to provide an exemption in both cases.

5. Encourage development cost charge deferrals to building permit stage

One of the challenges facing residential home builders is upfront funding for future projects, particularly as cash flow is impacted. By deferring the DCC payment to building permit, it supports builders that have subdivision projects ready-to-go for this summer but need the short-term support to keep projects going.

¹This [CMHC guide](#) covers some of the many building materials involved in wood-frame construction.

This does not necessarily mean financial stimulus, but rather encouraging and supporting such regulatory changes to take place to permit this at the municipal level.

6. Defer planned DCC increases

Local governments across the province have implemented DCC increases that may be set to come into force in the coming months. For builders currently struggling, this is not going to help the current situation. We recommend that the provincial government work with local governments to extend and grandfather planned DCC increases beyond existing grandfathering periods in the legislation. Again, this is not direct financial support, but rather initiating the tool to be used by local governments that can do so.

Long Term Priorities

1. No to prompt payment legislation

Contractors in the residential construction industry deserve to get paid on time. Their livelihoods and families depend on it. CHBA BC believes in timely payment and the Builders Lien Act helps enforce compliance when there are problems. Recent efforts to import “prompt payment legislation” from Ontario will create unnecessary duplication and increase costs for needed housing.

The one-size-fits-all approach would apply the same rules to both small residential construction companies and multi-billion dollar public infrastructure projects. It would apply unreasonable timelines for payment and implement adjudication to settle discrepancies.

Though well-intentioned, it is an imperfect policy. If imported to B.C. as is, it will negatively affect the financial capabilities of small businesses involved in residential construction contracts. There is no unanimous opinion on this issue and we disagree with any claims that it's the problem solver for COVID-19. For our small business members, it would be the complete opposite and could make their current situations even worse.

Prompt payment should not be dealt with through the budget process. Rather, any discussions on prompt payment require all parties to be at the same table.

2. Consider changes to new underwriting policies

We worry that first-time buyers may be impacted by new underwriting policies, expected to come into force on July 1. We suggest that the provincial government work with the federal government to consider other tools available for first-time buyers, such as 30-year amortization periods and dynamic changes to the stress test.

3. Exempt properties in the development process from the additional school tax

The additional school tax introduced in Budget 2018 for properties over \$3 million indirectly impacts the cost of new construction as it does not separate land acquired for development versus a large, luxury property. This ultimately impacts the price paid by new home buyers.

Home builders are required to purchase land in advance. It's an essential raw material to the development process. However, development timelines are often out of a company's control, yet are subjected to the annual school tax through this process.

CHBA BC was pleased to work with the Ministry of Finance in 2019 to develop specific exemptions for the speculation and vacancy tax for properties under development or where building activity is taking place. It also covers phased developments and vacant new inventory. Examples of eligible building activity includes applying for a permit, clearing or excavating the site, and constructing a residence on the property. This was a critical step for housing affordability and we applaud the government for this exemption.

We believe this framework may work for the annual school tax, using the classifications of development and relevant building activity. If we want to impact housing affordability, this is a tool available to the provincial government and we encourage the committee to consider this exemption.

4. Implement the Development Approvals Process Review Recommendations

The work from the province through the Development Approvals Process Review has never been more important, particularly as our society has adjusted to a new normal. This is a significant opportunity to pilot new approaches over the longer term, through joint coordination with ministries and industry.

In residential construction, there are thousands of new homes sitting in the approvals process that are "shovel ready" and waiting on the necessary permits. A concentrated focus on advancing development approvals province-wide is good for B.C.'s budget and meeting our needed housing targets.

COVID-19 forced new approaches to meet social distancing requirements, such as meeting virtually for public hearings, taking submissions through digital formats, and waiving requirements for compliant projects. We encourage the committee to further invest in this type of innovation and continue to advance new approaches for development approvals.

5. Continue the funding for retrofits and BetterHomesBC

The Better Homes BC program (previously known as EfficiencyBC) allows homeowners to access funding for residential projects. In Budget 2019, additional funding was allocated in order to reach more homes and businesses. This is an important sign that industry and consumers are responding to this program, and that it should continue to be funded and expanded.

Upgrading our existing housing stock is a key area of opportunity for the province. Existing homes use significantly more energy than new homes built today. The benefit of allocating funds through an incentive-based program is that homeowners can evaluate what changes are right for their families during a renovation, and builders can review options with their clients for their new home projects.

In addition, this program requires that homeowners will work with businesses that provide a GST number and statements of the work performed in order to access the funding. This is important to ensure the associated increase in renovation work goes to professional renovators and contractors, and not the underground economy.

We recommend maintaining and/or increasing funding for residential home renovations and new homes through the Better Homes BC program to ensure the maximum number of British Columbians can benefit.

6. Adjust Property Transfer Tax thresholds for first-time home buyers

Home buyers across the province must consider their closing costs when evaluating a home purchase. This includes the provincial property transfer tax (PTT). This tax structure was first implemented in the 1980s with few amendments. A modern adjustment to today's prices is warranted to support first-time home buyers.

We recommend increasing the first-time home buyer exemption threshold to \$750,000.

Conclusion

Home builders and renovators are a key group that will build the homes we need across British Columbia. We are also an essential source of jobs and economic activity during our recovery period.

We have suggested short-term options to help B.C. weather this upcoming period, support housing demand across the province, and help home builders and renovators maintain and create jobs province-wide for their companies and the trades they work with.

Our long-term options consider changes that positively benefit housing affordability for future first-time home buyers, help us meet our CleanBC objectives, and move needed housing projects from the approval to construction stages.

We encourage you to continue to review our recommendations. Please let us know if we can provide any additional feedback to the committee.

Sincerely,



Neil Moody
Chief Executive Officer