



Photo courtesy of Wastell Homes, London, ON

SECTOR TRANSITION STRATEGY

Solutions to the barriers preventing Canada
from building 5.8 million homes



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INTRODUCTION

Canada is facing a housing crisis. Chronic undersupply of market-rate housing has led to a shortage of all types of homes, driving up prices of available homes for sale and for rent, and putting still more pressure on affordable housing. The housing shortage has greatly impacted housing affordability, preventing many younger Canadians and new Canadians from buying a home. When it's too expensive to buy a home, we have more renters. And more people competing for the same number of rental units drives up rent prices, which puts more people in core housing need and places undue pressure on the social housing system.

With the chronic lack of supply driving up house prices, the federal government has determined that Canada must build 5.8 million homes over the next decade to address the housing deficit and tackle housing affordability. This means we need to build 3.5 million more housing units over and above the 2.3 million we would normally build during that timeframe, which means we need to more than double housing starts. However, there are currently many challenges that will make it impossible to reach that target without substantial systemic change to how we finance and build homes in this country.

The Canadian Home Builders' Association (CHBA) has been the voice of Canada's residential construction industry since 1943, and seeks a strong and positive

role for the housing industry in Canada's economy and in the life and development of our communities. Our expertise and insights come from over 8,500 member firms from coast to coast, including the members of our Modular Construction Council. CHBA's Sector Transition Strategy presents solutions to the challenges our country is facing in communities from coast to coast.





GETTING TO 5.8 MILLION HOMES

Accomplishing the goal of doubling housing starts is a complex matter that is not achievable with the current status quo. To do it, we need a whole-systems approach by all governments at the local, provincial and federal level.

Canada's housing industry cannot build 5.8 million homes without the government supporting systemic change in four areas: financial, policy, labour, and productivity.

CHBA's Sector Transition Strategy builds on and relies on enactment of CHBA's recommendations to address housing affordability and supply to create the environment where housing production can actually increase. It then focuses on supporting and de-risking an industry transition to incorporated more factory-built systems in order to increase productivity with the goal of addressing Canada's 3.5 million housing unit supply deficit.



Continue federal leadership but ensure a holistic approach



Remove barriers to homeownership for first-time buyers



Lower government-imposed costs that add to affordability challenges



Remove barriers within the home building process



Avoid adding costs through codes and regulations



Address labour shortages



Support increased productivity

FINANCIAL SYSTEM CHANGE

If Canadians can't buy homes – and in particular, if young and new Canadians can't buy their first home – then we will not see an increase in housing starts. Why? Builders need buyers to keep building. There is a need for more homes, but if no one can afford to buy them or if people are waiting for better conditions to buy, builders cannot keep building homes. And yes, we need more rental properties too – we need to unlock investment from private buyers to buy their own homes, bringing billions of dollars to spur construction of housing for ownership, plus billions of private dollar investment in purpose-built-rental housing.

We need changes to our financial systems that enable Canadians to buy homes. We also need to create change that enables investment in purpose-built rental, which is a critical housing option for many, but is currently very cost-prohibitive for developers.

POLICY CHANGE

While the lack of supply is driving up prices, many other factors are as well. Construction and carrying costs keep rising, which in turn is making the cost to build homes rise. More and more red tape is adding to costs and causing delays, which further amplifies construction costs. Additions to the building codes, which are made for a variety of broad policy goals (sometimes good, and sometimes excessive), also continually add to the cost of construction, further eroding affordability. Development taxes (development fees, lot levies, amenity fees, etc.) have risen some 700% over the past two decades and can now be as high as 25% of the sale price.

There are many changes needed to fast-track development and lower construction costs if we're to double housing starts.



SOME KEY FINANCIAL SYSTEM AND POLICY RECOMMENDATIONS:

- Ensure government's own policies do not run counter to increasing supply (e.g. interest rates, mortgage rules (incl. stress test), taxation, codes and standards)
- Re-introduce 30-year amortization periods for insured mortgages for new construction and increase upper limit to \$1.25M
- Address the stress test and avoid further underwriting tightening
- Increase thresholds on GST New Housing Rebate
- Continue emphasis on doubling starts, providing analysis on cities with shortages & supply barriers
- Continue Housing Accelerator Fund investments to support change in municipal systems and processes
- Increase infrastructure and transit investment & tie to housing outcomes
- Adopt affordability as a core objective of National Building Code
- Invest in R&D for lower or cost-neutral solutions that must be pursued before regulation that increases costs.

LABOUR CHANGE

The Canadian residential construction industry is facing a major labour shortage and does not have the capacity to double housing starts, should financial and policy system changes enable the market to trend in that direction. According to BuildForce Canada, 22% of the residential construction workforce is set to retire over the coming decade. To replace them, over 158,000 workers would need to be hired – but Canada doesn't have the projected domestic workforce capacity to replace the workers to maintain the status quo, let alone double housing starts. Additionally, there is increased demand for renovations and energy retrofits to achieve Canada's net zero emissions targets by 2050, which draws on the same labour pool.

Changes to the labour system are needed to provide enough workers (current Canadians and new Canadians through immigration) to counter the retirement wave and meet increased demand in new home construction and renovation/retrofit.



PRODUCTIVITY CHANGE

On top of the labour shortfalls, new BuildForce Canada data is projecting that building 5.8 million homes over the next decade will require almost half a million additional workers in the industry. This means that Canada's residential construction industry will need more workers from domestic sources and immigration, but we will also need productivity gains, since over three-quarters of a million more workers will be all but impossible to secure.

So if the financial and policy challenges change sufficiently to allow much more housing production in order to double housing starts, there needs to be a fundamental shift in how homes are built in this country to increase productivity, given the people we will have available. Incorporating more factory-built homes has the potential to greatly improve Canada's housing supply, and many are rightly looking to modular and panelized construction, but there are many barriers to making that shift.

Increasing industry productivity through factory-built construction will require substantial capital investment that must be incented and de-risked. CHBA's Sector Transition Strategy shows how this can be done.



See the full list of CHBA's recommendations at chba.ca/recommendations2024

CHBA'S SECTOR TRANSITION STRATEGY

In modular construction, the home is built in one or more 3-dimensional modules in a factory and then shipped to the site. Panelized systems – where 2-dimensional wall and floor panels are pre-built in factories and shipped to site – are also an option for making use of factory-built construction. Both approaches can be used for all forms of housing, from small homes to large homes to multi-family buildings.

Moving the industry towards more factory-built construction offers many benefits, but there are costs, risks, and barriers that have prevented the industry from transitioning to factory-built construction thus far.

WHY AREN'T WE ALREADY BUILDING ALL HOMES IN A FACTORY?

The residential construction industry has made some increases in productivity over the years, from introducing tract-built homes (designing a floor plan/model and building duplicates of them), to productivity gains achieved through innovation in building materials and tools. In fact, according to Statistics Canada, productivity in residential construction climbed 14% from 2012 to 2022. But the site-built approach remains labour intensive. So why haven't builders already made the move to factory-built homes?

The answer lies in the housing industry's historically dramatic economic cycles. Builders and developers have evolved to expertly and efficiently weather boom and bust cycles of the market/economy; their efficiency is often underestimated. The following factors contribute to the flexibility and resilience of the industry:

- Most companies are micro/small businesses who employ just a few people; most of the construction work is subcontracted out as needed.
- As a result, there has been limited unionization within the industry.
- Site-built construction, with its mobility of trades and subcontracted structure, moves trades from site to site in an assembly line. This often means that builders “share” the same tradespeople.
- The skillsets needed for residential construction allow for fluidity between new construction and renovation – when times are slow, many builders and their trades focus on the renovation side of the business.
- Likewise, there is fluidity between residential construction and commercial construction, further allowing those tradespeople to stay active in varying conditions.



Photo courtesy of Big Block Construction, Saskatoon, SK

All of these factors combined allow businesses to function with very low overhead/capital costs, making it easy to downsize during slow economic times.

Conversely, factory-built construction requires high capital investment, high overhead, a steady workforce, and steady throughput, which means it's not inherently well suited to boom and bust cycles. And

while it's certainly efficient in its productivity, it's not efficient enough to offset the current barriers. Those barriers will need to be addressed so that more homebuilders will be able to make the transition, and factories can expand capacity.



BARRIERS TO FACTORY-BUILT CONSTRUCTION

In addition to the high capital investment, high overhead, and steady workforce and consistent throughput needed to embark on and sustain factory-built home construction in a financially feasible fashion, there are a variety of other hurdles that need to be addressed, including but not limited to:



Photo courtesy of Triple M Housing Ltd., Lethbridge, AB

- Homes built in factories need to be transported to site, and transportation restrictions (which are often inconsistent between provinces and industries) make this a logistical challenge that sometimes results in the inability to transport homes.
- There are regulatory challenges, including among building officials (e.g. different interpretations of building code).
- There can be duplication of inspections (in the factory and then again on site – the latter shouldn't be needed), taking away from one of the advantages of factory-built.
- Most financial institutions don't offer proper construction-financing products for factory-built homes, increasing the financing costs and challenges for factories.
- Labour shortages affect factory-built as well.
- There are costs and risks to completely changing how a builder does business, especially when the business is set up to weather downturns, as discussed above.

Given how the housing market functions in Canada and the barriers to factory-built construction, government support will be needed to substantiate the business case and de-risk the investments to make such a transition.

THE BENEFITS OF FACTORY-BUILT CONSTRUCTION

If there are so many barriers, why should the industry transition to more factory-built homes? In addition to our need to overcome Canada's permanent labour challenges through increased productivity, the benefits of factory construction are extensive, and a scaled factory-built industry could indeed have the capacity to double housing starts and address Canada's chronic supply shortage and affordability crisis.

Factory construction is more efficient from a time, labour and material perspective, which gives it an edge over on-site construction. It's also shown to create less greenhouse gas emissions and construction waste.

And although factory-built approaches can build any form of housing from small homes to large homes to multi-family buildings, it is ideally suited for low-rise multi-unit construction (up to 4 storeys) – housing types that are much in demand and make up the “missing middle” of housing architectural types. Factory-built construction can also easily be used for infill housing (e.g. laneway housing and other accessory dwelling unit forms), and rural/remote housing, including housing for indigenous communities. It also lends itself very well to rapid housing and affordable housing.

There is a lot of opportunity for the industry to shift to factory-built construction. According to CHBA's Housing Market Index

(chba.ca/hmi), only 2% of respondents are using modular construction, and 25% used some form of panelization in the last year. However, 90% are considering using some form of factory-built construction in the next one to three years.

Clearly, builders are seeing the advantages of the reduction in on-site construction time and reduced labour requirements. Now they need the support to make the transition.

TOP BENEFITS OF FACTORY-BUILT CONSTRUCTION

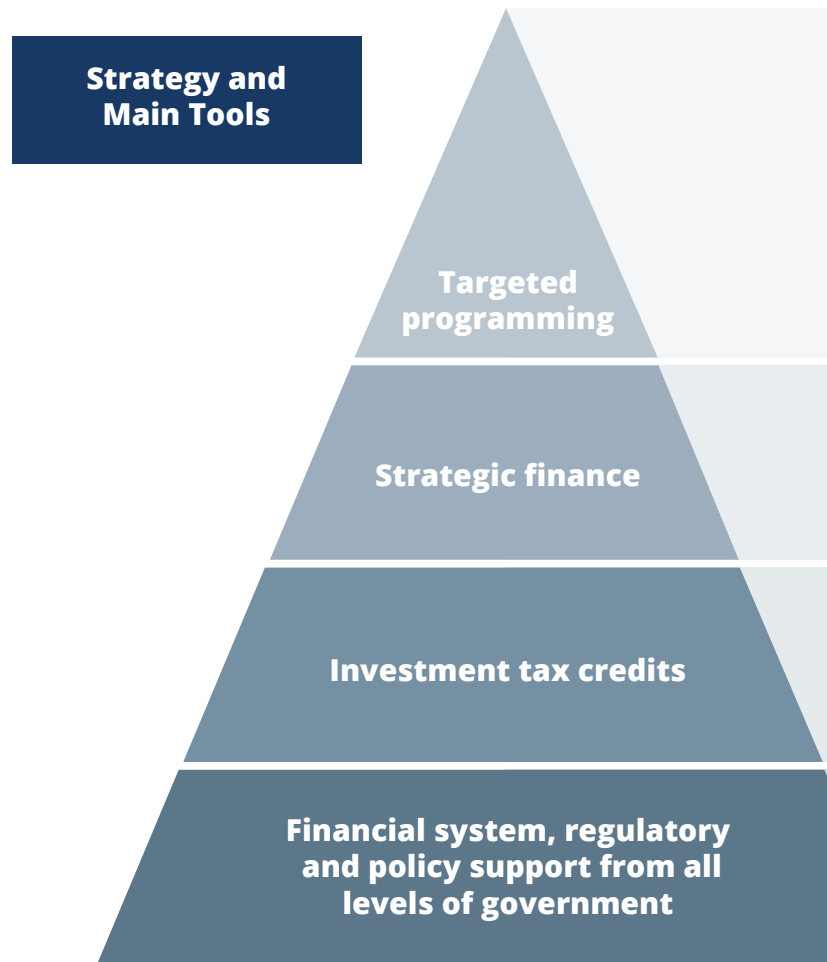
- **Faster construction with fewer delays**
- **Year-round work with limited weather issues**
- **More energy efficient and less waste**
- **Increased output with less labour**
- **Easier to get labour (fewer barriers to entry, appealing conditions, good for immigration, including temporary foreign workers)**



HOW GOVERNMENT CAN SUPPORT CHBA'S SECTOR TRANSITION STRATEGY FOR HOUSING SUPPLY

There are concrete steps the government can take to help to address Canada's housing crisis and improve housing affordability through the increased productivity of factory-built solutions. The actions on this page came from input and feedback from builders across the country, including critical insight from CHBA's Modular Construction Council, which is made up of representatives from many of Canada's current factories.

The pyramid on this page and the next is a made-in-Canada plan that will allow for the residential construction sector to transition to more factory-built homes to increase housing supply and build 5.8 million homes to close the supply deficit. It is modelled after *Canada's Plan for a Clean Economy*, as clean technology faces similar market penetration challenges. Just as the government stepped forward in Budget 2023 to address the climate crisis with a made-in-Canada plan for a clean economy, Canada needs a made-in-Canada plan for housing supply, using similar tools.





- Grant funding for soft costs of transition for site-builders
 - Soft-cost acceleration funding for manufacturing facilities
- } *Akin to Canada Digital Adoption Grant (CDAP)*
- Add housing manufacturing as a priority area in initiatives like the Strategic Investment Fund
 - Contribution Agreement Funding for CHBA Factory-Built Systems Hub for: information and training for builders and building officials; addressing regulatory barriers; innovation in factory-built systems; concierge service for government transition funding
- Low-cost financing, repayable on unit production metrics (de-risking), from the Canada Infrastructure Bank
 - Financial institution support for modular construction financing, backed by CMHC
- Housing Manufacturing Tax Credit – a refundable tax credit equal to 30% of the cost of investments in the new machinery and equipment used to manufacture housing (akin to the Clean Technology Investment Tax Credit)
- Financial system, regulatory and policy support per CHBA’s extensive recommendations to enable investment, reduce costs, and avoid delays, all to support more supply and a more predictable demand

STEP 1: SET THE STAGE THROUGH FINANCIAL SYSTEM, REGULATORY & POLICY SUPPORT

Financial system, regulatory and policy support will be required from all levels of government, per CHBA's recommendations for a holistic approach, to enable investment, reduce costs, and avoid delays, all to support more supply and a more predictable demand. Federally, this includes:

- Continue federal leadership when it comes to housing, but ensure a holistic approach
- Remove barriers to homeownership for first-time buyers
- Lower government-imposed costs that add to affordability challenges
- Remove barriers within the home building process
- Avoid adding costs through codes and regulations

SPECIFIC ACTIONS THE FEDERAL GOVERNMENT SHOULD TAKE TO SET THE STAGE TO SUPPORT MORE SUPPLY

- Ensure government's own policies do not run counter to increasing supply (e.g. interest rates, mortgage rules (including the stress test), taxation, codes and standards)
- Introduce 30-year amortization periods for insured mortgages for new construction and increase the upper limit to \$1.25M
- Address the stress test and avoid further mortgage underwriting tightening
- Increase the thresholds on the GST New Housing Rebate
- Continue emphasis on doubling starts, providing analysis on cities with shortages and supply barriers
- Continue Housing Accelerator Fund investments to support change in municipal systems and processes
- Increase infrastructure and transit investment and tie it to housing outcomes
- Adopt affordability as a core objective of the National Building Code
- Invest in R&D for lower or cost-neutral solutions that must be pursued before regulation that increases costs
- And much more (see the full list of CHBA recommendations in its Policy Infoguide, *Unlocking the Door to Ownership: Recommendations on the Federal Role 2024*).

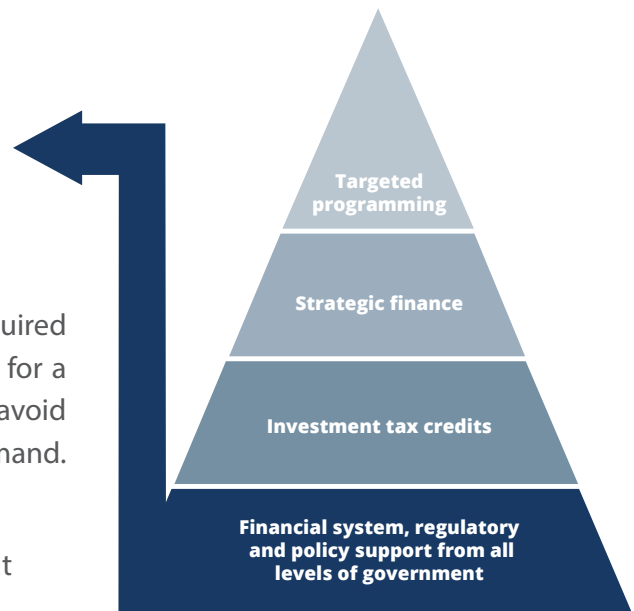
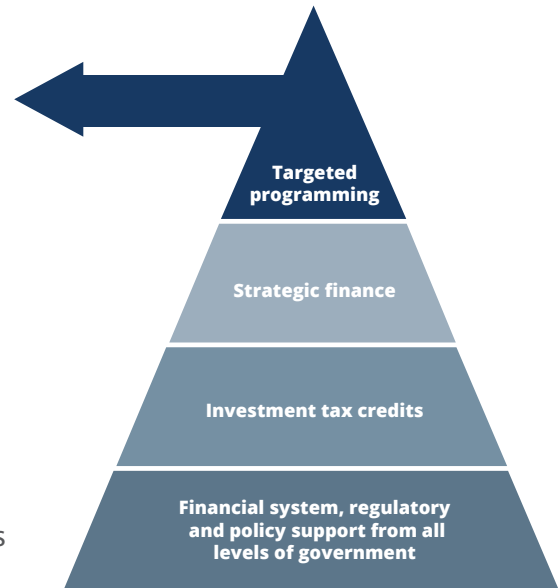


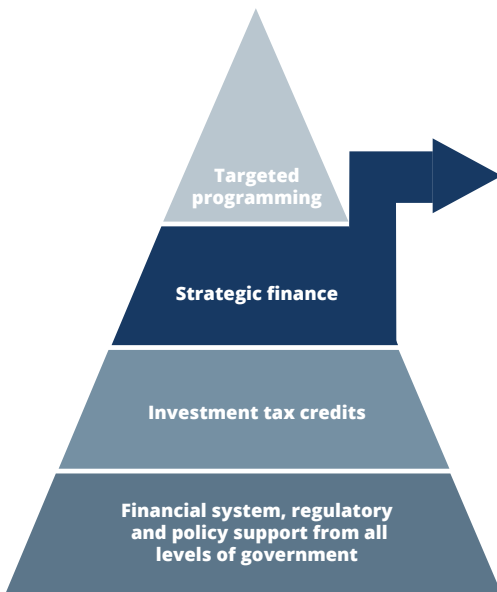
Photo courtesy of Hayer Builders Group, Surrey, BC

STEP 2: INFORM AND INCENT THE TRANSITION THROUGH TARGETED PROGRAMMING

The federal government can help inform and incent the industry transition to more factory-built homes through several targeted programming actions to kick-off the transition for the industry and individual companies. These actions include:

- Grant funding for soft costs of transition for site builders
 - Needs assessments for making the transition
 - Training on starting with factory-built from the outset (during the design phase)
 - Process-change funding for site builders (all decisions and timing are determined up front, especially with modular)
 - Conversion of builders' existing catalogue of home designs to factory-built versions
- Soft-cost acceleration funding for manufacturing facilities
 - Opportunity assessments
 - International investigations/learning
 - Training (software, robotics)
- Contribution Agreement Funding for CHBA Factory-Built Housing Hub for:
 - Information and training for builders, developers, factory owners, product manufacturers, engineers, architects, designers, trades;
 - Training for new/prospective factory-built workers (including ESL residential construction training);
 - Information and training for municipal officials, planners, building inspectors;
 - Modular-specific education and training for inclusion in post-secondary institutions' curricula
 - Addressing regulatory barriers at all three levels of government (codes, standards, permitting, transportation, etc.);
 - Standardizing connections (for panelized and modular systems; design for disassembly);
 - Collaborative innovation in factory-built systems (e.g BIM, robotics);
 - International investigations/learning collaboration and partnership establishment;
 - Concierge service for government transition funding for industry firms;
 - Industry/data benchmarking and progress tracking;
 - Assessment and measurement of GHG benefits of factory-built approach vs. site-built (e.g. waste reduction, transportation emissions reduction, etc.)





STEP 3: INCENT AND DE-RISK THE INVESTMENT THROUGH STRATEGIC FINANCE ACTIONS

There are high upfront investment costs when moving to factory-built construction. The federal government can help incentivize builders and de-risk their investment so that more builders transition to factory-built home construction.

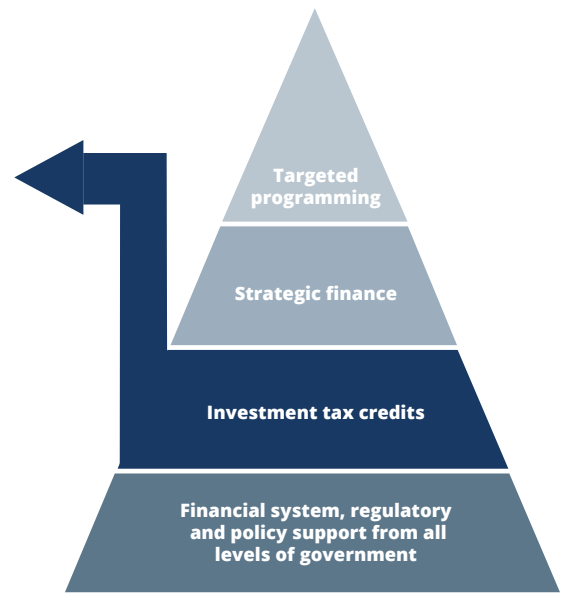
Through consultation with industry, CHBA has put together a list of strategic finance actions:

- Housing Manufacturing Finance Program: Provide low-cost financing, repayable on unit production metrics (de-risking)
 - Financing is repayable based on timing of achieving goal (e.g. 10,000 units over 10 years; if market slows, repayment slows; if market booms, repayment accelerates)
- Housing Manufacturing Retention Wage Subsidy
 - To maintain qualified workers during slow periods, connected to output (per above) to maintain capacity as market turns
- Work with federal / provincial / municipal affordable housing providers to provide multi-year/multi-project long-term contracts to factory-based firms
 - Creating long-term certainty for projects can create the certainty needed for investments
- Financial institution support for factory-built construction financing, backed by CMHC.
 - Financial institutions have difficulty with construction draws given units are built off-site
 - This currently adds extensive financing costs to factories, and therefore homes
 - A CMHC insurance product could help initiate improved construction financing products from financial institutions
- Add housing manufacturing as a priority area in funding initiatives like the Strategic Innovation Fund (or create a Housing Innovation Fund) to lower investment costs.



STEP 4: SUPPORT INVESTMENT THROUGH TAX CREDITS

Building a modular housing factory requires considerable investment in new machinery and equipment. In addition, to further increase the productivity gains from factory-built construction, we need more investment in new and emerging technologies. A clear and predictable tax credit would support and accelerate investment in modular factories.



Photos courtesy of Big Block Construction

HOUSING MANUFACTURING TAX CREDIT

A tax credit to provide a refundable tax credit equal to 30% of the cost of investments in new machinery and equipment used to manufacture housing (akin to the Clean Technology Investment Tax Credit). This would support technology such as:

- Robotics
- Automation
- Assembly lines
- Cranes
- Transportation
- Computers
- Building Information Modelling (BIM) Software
- Health & Safety Equipment
- Low-Carbon Equipment (including for factory itself e.g. HVAC)





Photo courtesy of Brookfield Residential, Calgary, AB

CONCLUSION

CHBA's Sector Transition Strategy, if supported by government, will enable a fundamental shift in how most homes in the country are currently built – an essential shift if we are to close the housing gap and create housing affordability for all Canadians as our population grows in the coming decades. As we've seen, failure to build enough homes results in an affordability crisis and more Canadians reliant on social housing, which is not only unsustainable, but not what Canadians want. Investing in the future of housing construction capacity now, per CHBA's Sector Transition Strategy, will prepare us for generations to come.

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