

October 15, 2015  
Select Standing Committee on Finance and Government Services  
Room 224, Parliament Buildings  
Victoria, BC V8V 1X4

Dear Committee members:

The Canadian Home Builders' Association of BC (CHBA BC) supports and applauds the Government of British Columbia's continued fiscally prudent approach for a balanced budget and strategy to grow the economy and enable job creation. CHBA BC is pleased to see that British Columbia's financial position and credit rating remain strong, as a result of successive balanced budgets and a forecasted surplus for the 2015-2016 fiscal year.

The overall value of the residential construction and renovation industry in British Columbia is \$18.3 billion, generating more than 134,500 jobs and \$7.6 billion in wages in new home construction, renovation and related fields – one of the largest employers in the province.\*

A total of 28,300 housing starts are expected in 2015 with an additional 29,000 housing starts forecast in 2016 based on data from Canada Mortgage and Housing Corporation (CMHC). This underscores the importance of the residential construction industry and the economic benefits this industry provides for British Columbia.

British Columbia's economy has continued to perform well, yet housing affordability continues to be a prime issue for British Columbians, particularly for the first time buyers. The activity in the residential construction industry can be affected not only by economic conditions and cycles, but also due to the policies of provincial and municipal governments that affect housing activity. Factors that can impact the local housing markets in 2015 and beyond include:

- changes in international, regional and local economic conditions, especially job creation and unemployment;
- changes in the Bank of Canada's monetary policy;
- higher government-imposed taxes, fees, levies and charges; and
- shortages of serviced land

The following recommendations would help support continued growth in communities in British Columbia, help address housing affordability, create efficiencies in the tax-system, and contribute to jobs and economic growth:

### **Protect Housing Affordability**

A vibrant housing industry and healthy housing market have significant economic spinoffs for British Columbia. Quality-built homes, in livable prosperous communities, that are affordable for British Columbians, are a key part of the socio-economic well-being of the province. Additionally, affordable housing would help position our province as a destination for a strong skilled trades workforce.

However, the cost of home ownership for British Columbians continues to increase beyond sustainable/manageable levels, and the ever-increasing tax burden placed on homes continues to erode affordability.

*\*Economic impacts calculated by Will Dunning Inc. Economic Research*

Tax competitiveness has been a cornerstone of the Government of British Columbia's fiscal policy since 2001, yet an outdated Property Transfer Tax (PTT) structure has remained in place. First introduced in 1987 as a luxury tax, the PTT has always been applied as 1% on the first \$200,000 of the fair market value of a property, and 2% on the remainder. Yet, this structure is not congruent with British Columbia's escalating real estate market and remains unchanged.

There was an exception, however, with a minimal adjustment in Budget 2014 when the PTT exemption threshold was increased to \$475,000 from \$425,000 for new home buyers at a cost of \$8 million. CHBA BC applauded this strategic move, but there is more work to be done. British Columbia continues to have the highest provincial property transfer tax in Canada, and the current rate continues to severely affect housing affordability.

There are several options available for PTT reform, and CHBA BC together with other leading industry organizations, have encouraged the Government for many years to minimize the negative impact that the PTT has on affordability.

Budget 2016 presents an opportunity to address affordability and improve the structure of the PTT to make it more equitable for homebuyers today and in the future. While CHBA BC understands the government's reliance on this increasing revenue stream and objective to balance the budget, adjusting the PTT could stimulate additional activity in the residential construction industry and encourage additional spending related to property transactions. Adjusting the PTT to help first time homebuyers would demonstrate to British Columbians that the provincial government is addressing the housing affordability issue.

## **1. Property Transfer Tax (PTT)**

### **Recommendation**

- i. Increase the 1% PTT threshold to \$525,000 from \$200,000, with 2% applying to the remainder of the fair market value.*
- ii. Index the 1% PTT threshold and make adjustments annually.*

While it is recognized that these recommendations may result in a reduction of PTT revenue for government, it will make the possibility of home ownership closer to a reality for more families throughout the province. Indexing the 1% threshold is a crucial step, as it will ensure the PTT has the same impact on current and future homebuyers.

Homebuyers in British Columbia deserve a reduction in tax. If the PTT is to remain, a restructure of this tax to reflect recent and current market conditions and assist British Columbians is long overdue. Modernizing this policy to reflect the current housing environment will act as a catalyst to attract the much-needed skilled tradespeople, many of whom face housing affordability issues.

Projected Revenue Impact of Indexing the 1% PTT Threshold

Fiscal Year	Revenue Impact (\$m)
2015/2016	-4
2016/2017	-7
2017/2018	-11
2018/2019	-14
2019/2020	-18

Note: MLS® HPI prices were assumed to rise in line with 2% inflation over the projection horizon.

1% PTT Threshold Options	Revenue Impact			
	Residential (\$m)	Non-Residential (\$m)	First-Time Home Buyer Program (\$m)	Total Loss of Revenue (\$m)
300,000	-80	-3	12	<b>-65</b>
400,000	-140	-6	18	<b>-116</b>
500,000	-182	-8	19	<b>-155</b>
525,000	-191	-9	19	<b>-163</b>
550,000	-199	-9	19	<b>-171</b>
575,000	-206	-10	19	<b>-177</b>
600,000	-213	-10	19	<b>-184</b>

Note: Revenue impact estimates are based on BC Assessment tax roll data for 2014 and First Time Home Buyer exemption data for fiscal year 2014.

**2. The Reconstruction Loan Portfolio (RLP)** is a loan portfolio administered by the Receivables Management Office (RMO), Ministry of Finance. This program was established in 1998 under the Homeowner Protection Act to provide financial assistance to eligible owners of homes requiring reconstruction to repair building envelope failure.

This loan program was previously administered by the Homeowner Protection Office (HPO), a provincial Crown Corporation that falls under the jurisdiction of the Ministry of Public Safety and Solicitor General. Effective July 31, 2009, the HPO stopped accepting new applications. Effective April 1, 2010, the responsibility for the ongoing management of the Reconstruction Loan Portfolio transferred to the Ministry of Finance. Builders are still paying on each multi density permit taken out. The loans that were extended to homeowners were to be a loan only. Although the program ended in 2010, builders continue to be charged the additional fee further affecting housing affordability.

### Recommendation

*Eliminate the fee (tax) that continues to be charged on multi-density developments that was established in 1998 under the Homeowner Protection Act to provide financial assistance to eligible owners of homes requiring reconstruction to repair building envelope failure.*

## Conclusion

Wealthy non-resident buyers may impact the higher end of the market and skew average prices, but the homes they are purchasing are not the product first-time homebuyers would purchase. According to British Columbian Real Estate Association (BCREA), last year, 32 per cent of homes sold in Metro Vancouver were priced below \$400,000 and 82 per cent were less than \$1million. According to the Real Estate Board of Vancouver, most condos in the region range in price between \$200,000 and \$600,000 and townhomes cost between \$300,000 and \$800,000.

Instead of adding costs to the price of housing through additional taxes, CHBA BC believes all governments can improve market-housing affordability by:

- Increasing the supply of units through more proactive land use policies;
- Reducing delays in the development approval process, so housing can be delivered to the market more quickly, and holding costs for projects can be reduced; and
- Lowering fees, charges and taxes on housing.

CHBA advocates that rising land prices, development taxes and other factors have combined to drive the price of homes skyward and out of reach of many hard working potential first-time home buyers. Fewer first-time buyers could undermine sale prices for existing homeowners, with ripple effects in equity for all.

Among Millennials, 86% of those currently renting or living with their families say owning a home is important to them, according to an Abacus Data poll. Three in four hope to own a home by age 31. But without action, their homeownership aspirations are at risk.

This is why CHBA BC continues to advocate that the provincial government take action to address housing affordability. In particular, first-time homebuyers need consideration—assisting well-qualified first-time homebuyers will be essential to increase or even to maintain current homeownership rates.

Housing issues are everyone's issues, and we encourage and recommend the provincial government introduce a budget that address the affordability challenges facing current British Columbians and those who hope to become homeowners in the future.

Working together, the residential construction industry and elected officials can make much needed improvements to housing attainability based on the recommendations we are submitting.

The Canadian Home Builders' Association of BC respectfully asks the Select Standing Committee on Finance and Government Services to review the recommendations in this submission and forward them to the Minister of Finance for inclusion in Budget 2016/17.

We thank you for this opportunity to provide input and stand ready to help in any way we can.

Sincerely,



Neil Moody  
Chief Executive Officer



### **About the Canadian Home Builders' Association of BC**

The Canadian Home Builders' Association of BC is the voice of the residential construction industry in British Columbia representing more than 1,600 members through an affiliated network of nine local home building associations located throughout the province. The industry contributes over \$18.2 billion in investment value to British Columbia's economy creating 133,700 jobs in new home construction, renovation, and repair – one of the largest employers in British Columbia.

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