



October 13, 2016

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

Dear Committee members:

Thank you for the opportunity to provide a pre-budget submission for 2017/18. The Canadian Home Builders' Association of British Columbia (CHBA BC) is pleased to see a continued fiscally prudent approach from the Government of British Columbia, and looks forward to seeing the fourth consecutive balanced budget in February 2017.

CHBA BC agrees that housing attainability and affordability must be top priorities for all levels of government, and especially for the current Government of British Columbia. The provincial revenue from real estate is one of the highest, and the residential construction industry, valued at \$19.0 billion, continues to provide many economic benefits for the province as well. The industry also represents over 137,000 jobs and \$7.9 billion in wages in new homes, renovations and repairs.

The strong difference between average incomes and housing prices in British Columbia continues to be the greatest concern for residents, and particularly for first-time home buyers. Housing affordability affects everyone – it influences where they live and work, and shapes the economic fortunes of all residents in British Columbia. Ensuring that our communities remain vibrant and economically-competitive places that attract and retain skilled workers is in everyone's interest in the province.

Over 96% of residents live in market-provided homes, whether owned or rented. This type of housing independence is based on "housing affordability" – ensuring that homes are within the financial reach of British Columbians. "Affordable housing," or social housing, is a smaller percentage of the housing market for those in housing need, whether it be for a lack of income, disabilities or other circumstances. When developing this next budget, the government must focus on creating solutions in market housing; it will reduce the pressures on social housing, so the available units are there to serve those in the most urgent need.

British Columbia is a desirable place to live and additional demand-related taxes are not the long-term solution. To add new supply of housing at affordable rates will involve all levels of government coming to the table to address the other factors in the housing market. These include increased infrastructure investment to link communities, increasing density, current land-use policies and decreasing the government-imposed costs on new housing at all three levels of government. Increasing supply is the only way to meet the population growth and demand for housing that exists in the province.

There will be no silver bullet, but at the provincial level, there are opportunities for action that exist to address housing affordability that can be reasonably included in this next budget. With these thoughts in mind, please consider the following recommendations from the Canadian Home Builders' Association of British Columbia for the 2017/18 provincial budget.

1. Restructure the Property Transfer Tax

The cost of home ownership continues to rise in British Columbia, coupled with the increasing tax burden placed on new home buyers. While some changes to the property transfer tax (PTT) have taken place in the past year, the outdated property transfer tax structure continues to erode affordability. The tax, first introduced as a luxury tax in 1987, is currently applied as 1% on the first \$200,000 of the fair market value, 2% on the remaining value up to \$2 million, and 3% thereafter.

CHBA BC applauded the elimination of the property transfer tax on new construction up to \$750,000 announced in BC Budget 2016. This move has helped thousands of families save on new home purchases, but more changes can occur to the PTT on existing homes to protect affordability.

With rising property values across the province, it does not make sense anymore to apply one per cent on the first \$200,000, as many condominiums now cost more than this threshold. This next Budget presents an opportunity to improve the structure of the PTT and improve the PTT paid by those in the lower-end of the housing market. As PTT is collected upon the final land transfer, many homebuyers, and especially first-time home buyers must turn to additional financing methods to secure the PTT revenue required, in addition to already high housing costs.

Recommendations

- i. Increase the 1% PTT threshold to \$525,000 from \$200,000, with 2% applying to the remainder between \$525,000 and \$2 million, and 3% thereafter.*
- ii. Index the 1% PTT threshold and review annually.*

The PTT is a revenue source for government, but protecting affordability and improving housing attainability for first-time home buyers should be a priority as well. Ensuring the 1% threshold is indexed, and restructured to reflect current market conditions will assist British Columbians and provide a much needed reduction in tax. This is a modern update to an outdated luxury policy that should be strongly considered in Budget 2017/18.

2. Support first-time home buyers

First-time home buyers are a critical component of the long-term housing continuum in British Columbia. Without action, those currently renting or living with families may not be able to achieve home ownership in this province, and may leave the province for other cities. British Columbia must retain skilled tradespeople and young workers to support the growth of the economy in the long term.

Recommendation

Increase the property transfer tax exemption for first-time home buyers from \$475,000 to \$525,000 to reflect market conditions.

As indicated in the previous recommendation, a restructure of the PTT so that 1% is charged on the first \$525,000 will better reflect existing market conditions. CHBA BC believes a prudent increase to the PTT exemption threshold should take place to the same figure of \$525,000. This change, only for qualified first-time home buyers, would support first-time home buyers in their home ownership aspirations by removing the tax burden on their initial purchase.

3. Eliminate the Reconstruction Loan Portfolio fees

For each new dwelling unit, in a multi-unit building in the coastal climate zone, builders continue to be charged a \$750 per unit reconstruction fee. This fee was established in 1998 to provide financial assistance to eligible owners of homes requiring construction to repair building envelope failures. The program was administered by the Homeowner Protection Office, a provincial crown corporation.

The problem with this fee, is that effective July 31, 2009, the Homeowner Protection Office stopped accepting applications for loans and the program officially ended in 2010. Yet, builders are still paying for this program with each multi-density permit fee. While \$750 seems negligible, it speaks to the growing issue of government fees and taxes contributing the cost of new housing and eroding affordability. It is also one extra level of red tape and burden for small businesses that can easily be removed.

Recommendation

Eliminate the fee charged to builders, and passed on to new home buyers, as the program is non-existent and has ended.

4. Renovation Tax Credit for Energy-Efficiency

For any changes to the building code or local bylaws, such as increased requirements for energy-efficiency, the impact to affordability must be considered. For example, the provincial governmental focus on energy-efficiency in housing announced in the Climate Leadership Plan is only on new construction. However, a typical new house today is already 47% more energy-efficient than a house built in 1985. The real opportunity for change is in energy retrofits.

Research indicates that every dollar invested in an energy retrofit yields four to seven times more energy savings than a dollar spent upgrading a new home. Over half of Canada's housing stock was built before 1985, and uses twice the energy as the homes built since. Focusing on incentives for energy-efficiency, in addition to smaller utility incentives in place, will support change in existing market housing as well as much needed upgrades in the social housing stock.

Recommendation

Introduce a home renovation tax credit for energy retrofits.

While home owners can benefit from small utility incentives on their appliances, creating change in the existing housing stock will require a significant incentive for home owners. A renovation tax credit is the best model because it remains a voluntary option, and also fights the underground economy in the renovation sector, where home owners and housing operators will have to work with a contractor that will provide receipts. This program will also provide the incentive for social housing operators, where many buildings are in need of repair or upgrades. The energy-efficiency changes would also benefit the tenants and owners with decreased utility bills over time and increased comfort.

Please also note that a home renovation tax credit was endorsed by delegates at the 2016 Union of BC Municipalities Convention (Resolution B46), indicating support at the municipal level for this type of policy action.

Conclusion

The price of housing is impacted by additional taxes and fees from all levels of government. Some of the recommendations in this summary outline simple methods for the provincial government to reduce the tax burden on new home buyers, first time-home buyers, move-up buyers and others, without disrupting the equity in existing homes.

CHBA BC also encourages that for any future changes to the property transfer tax the transactions in place are exempt. A grandfathering process for existing contracts has been standard procedure in the past and should be expected with any future changes.

There is significant government revenue in the short-term from the housing market, but the unintended consequences of first-time home buyers and skilled tradespeople possibly leaving the province in search of more affordable housing options cannot be overlooked.

CHBA BC continues to advocate that the provincial government focus on housing affordability and the current challenges facing British Columbians who hope to become home owners one day. CHBA BC encourages you to consider its recommendations and the benefits for all when planning for Budget 2017/18.

CHBA BC is pleased to provide any information or continue consultations on the recommendations. Thank you for this opportunity to provide input and CHBA BC looks forward to the next balanced budget by this provincial government in February 2017.

Sincerely,



Neil Moody
Chief Executive Officer

About the Canadian Home Builders' Association of British Columbia

The Canadian Home Builders' Association of BC (CHBA BC) is the voice of the residential construction industry in British Columbia representing more than 1,700 members through an affiliated network of nine local home building associations located throughout the province.

The residential construction industry is essential to British Columbia's long-term economic strength and prosperity, with 137,100 jobs, \$19 billion in investment value and \$7.9 billion in wages – one of the largest employers in the province.