

Overview

1. What are the factors driving housing prices in Metro Vancouver
2. What has the Province done to date
3. Perceived Issues
4. Public/cities/media/academics suggestions

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Context

- Housing prices in Vancouver have experienced rapid growth in recent years, which continues today.
- Local officials, the media and academics variously point to the following possible drivers to explain this growth:
 - Demand has been driven by speculators, which drives up prices;
 - Speculators/investors leave properties vacant, which reduces supply and drives up prices; and
 - Foreign purchasers/investors are buying properties and thereby driving up prices.
- However, short term holdings of properties have not significantly increased in recent years and a recent study indicates that the incidence of vacant homes in Vancouver is at the same level it has been for 12 years.
- The new residency reporting requirements of purchases of properties that will start this summer might support some type of action.

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Housing Price Trends: Single Detached

- The price of single detached homes has increased significantly over the last 5 years.

Region	Detached House Price – February 2016	5-year Increase (2011 – 2016)
Greater Vancouver*	1,305,600	53%
Vancouver (east)	1,265,800	72%
Vancouver (West)	3,003,800	60%

Source: Real Estate Board of Greater Vancouver

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Housing Price Trends: Condominiums

- Multi-family dwellings have not increased in price as rapidly as single-detached homes.
- This is due to additional supply entering the market. RSH3

5 year per cent change in MLS HPI benchmark price in selected markets
(January 2011 to January 2016)

Market	Single-Detached	Condominium
REBGV Area	53%	27%
Burnaby (East)	60%	25%
Burnaby (North)	62%	18%
Burnaby (South)	62%	19%
North Vancouver	63%	18%
Richmond	44%	21%
Vancouver (East)	72%	37%
Vancouver (West)	60%	36%
West Vancouver	81%	30%
FVREB Area	36%	4%
Abbotsford	22%	-2%
Langley	34%	0%
Surrey	36%	4%
Lower Mainland	47%	23%

Source: Real Estate Board of Greater Vancouver (REBGV)
Fraser Valley Real Estate Board (FVREB)

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Housing Price Trends: Provincial

- Housing price increases have not been as severe outside of the Metro Vancouver.
- Affordability is a regional issue.

Per cent change from 2011 to 2016

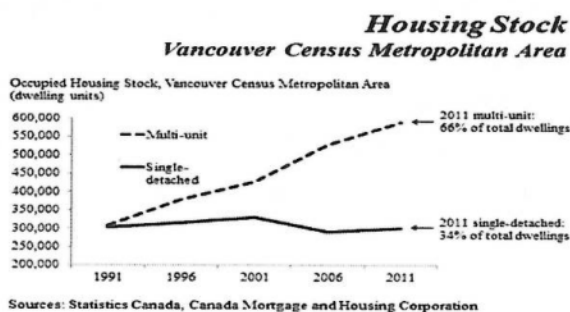
Region	Single Detached	Condominium
Greater Victoria	5.81%	3.34%
Vancouver Island	5.08%	5.61%
Prince George	16%	N/A
Kelowna	7%	N/A

Source: CREA

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Housing Price Drivers: Population Growth

- The stock of single-detached homes is flat while the number condominiums has increased.
- The population of Metro Vancouver is up 44%, between 1991 and 2011.
- By 2015, population grew another 6 per cent (140,000 people) with an additional 185,000 expected over the next 5 years.



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Housing Price Drivers: Mortgage rates

- Mortgage rates have decreased significantly.
- Greater ease of borrowing has increased demand for housing and pushed prices up.



Figure 7. Mortgage rates and historical real average housing prices in Canada
Calculated using data from the UBC Centre for Urban Economics and Real Estate and Statistics Canada**

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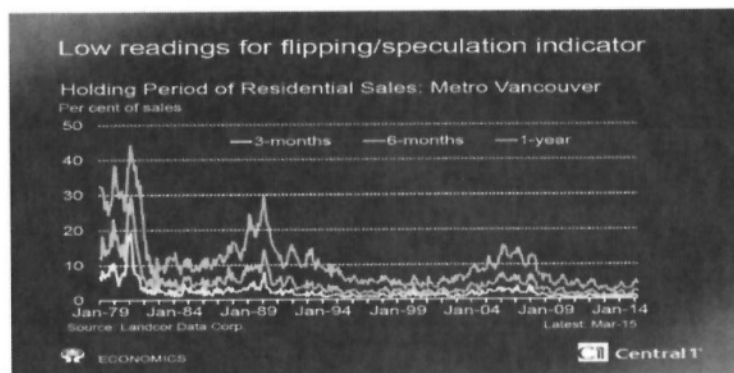
Housing Price Drivers: Mortgage rates

- A \$1,300,000 house in Vancouver at the current 5 year fixed mortgage rate with a 30 year amortization has a monthly mortgage payment of approximately \$6,200.
- The same \$6,200 monthly payment at different mortgage rates results in:
 - A \$675,000 house at a 10.5% interest rate (1995)
 - A \$800,000 house at a 8.55% interest rate (2000)
 - A \$1,000,000 house at a 6% interest rate (2005 and 2010)

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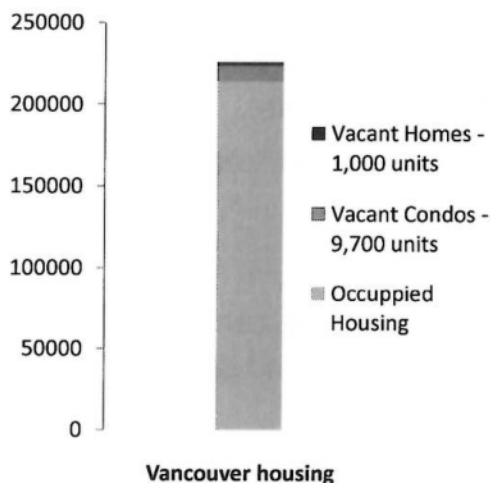
Housing Price Drivers: Speculation

- Less than 4 per cent of homes sell within one year of purchase.
- This is a historic low.
- Not all of that 4 per cent are being “flipped” for a profit – there are many reasons to sell a home soon after purchase, a divorce, change in employment, death, birth of a child etc...



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Housing Price Drivers: Vacant Homes



- ❑ A recent study showed that out of 225,000 Vancouver homes studied, about 11,000, or 4.8% were vacant, 90 per cent of which were condominiums.
- ❑ The 4.8% vacancy rate has remained flat for 12 years and is in line with other major Canadian cities.
- ❑ The higher vacancy rate for condominiums is due, in part, to condo rental restrictions.
- ❑ Condominium prices have remained relatively stable.

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Housing Price Drivers: Foreign Investment

- Estimates place foreign purchasers at between 5-7% of the market.
- Anecdotal evidence that foreign purchasers are concentrated in the high end of the Vancouver residential real estate market.

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- Citizenship data collection will begin June 2016.

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What has been done to date and what can be done

- **What has been done:**
 - The Province has a number of programs aimed at making home ownership affordable.
 - The Federal government has also recently announced new measures.
- **What else can be done:**
 - The Province can influence supply, can tax foreign purchasers, can tax speculation, and can tax vacant homes.

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Existing Tax Measures to Address Affordability

- *Home Owner Grant*
 - The basic grant provides a \$570 grant to eligible home owners.
- *Property tax deferment program*
 - Property Tax Deferment is a low-interest loan program that allows qualifying B.C. homeowners, including persons over age 54, to defer all, or a portion of, the annual property taxes on their principal residence.
 - Homeowners who financially support a dependent child are eligible to defer their property taxes, helping families during the years when household costs are typically the highest.
- *First Time Home Buyers' Program*
 - The First Time Home Buyers' Program reduces or eliminates the amount of property transfer tax B.C. residents pay when they purchase their first homes.

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New Announced Provincial Actions

Budget 2016:

- Property Transfer Tax (PTT) exemption on newly built housing up to \$750,000 for Canadians to use as a principal residence.
- PTT rate increased to 3 per cent from 2 per cent on the portion of fair market value in excess of \$2 million.
- New reporting requirements regarding citizenships and bare trusts.
- Capital spending of \$355 million over five years to support the construction or renovation of more than 2,000 affordable housing units in communities across the province.
- BC Housing will conduct a study on key factors affecting housing affordability in BC, which will contribute to policy making across all levels of government.
- BC Government is exploring ways to make the components of the cost of new housing, such as municipal costs and fees, more transparent to home buyers. (Finance is preparing a Request for Legislation for Spring, 2017, which will propose changes to the Real Estate Development Marketing Act.)

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New Announced Provincial Actions

Post-Budget Announcements:

- Review of the Advisory Group of the Real Estate Council
 - Mandate is to examine both the adherence of realtors to the existing rules and to examine the rules themselves to ensure they are adequate.
 - Interim report has been provided to the Council. The full report and recommendations will be provided by the end of May, 2016 to the Council.
- Minister of Finance has met with Real Estate Council and has reviewed initial recommendations.
- March 18, 2016 News Release: Province to address “shadow flipping” through changes to a regulation under the Real Estate Services Act, while awaiting the recommendations of the Advisory Group and Council.

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New Announced Federal Actions

Federal Budget 2016:

- The federal budget includes several funding commitments related to affordable housing, including \$1.5B over two years under the infrastructure plan (some of which would need to be matched by provinces and territories), and \$0.7B over two years for housing in Aboriginal communities.
- The federal budget promises to consult with provinces and others over the next year to develop a National Housing Strategy.
- The federal budget allocates \$500,000 to Statistics Canada to gather data on the role of foreign homebuyers in Canada's housing market. It notes that this could involve collaboration with BC.
- BC is ready to assist Statistics Canada once we begin collecting citizenship data. The *Property Transfer Tax Act* currently authorizes sharing the data collected on foreign ownership through the PTT system with Statistics Canada.

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Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Michael de Jong, Q.C. **Date Requested:** February 23 2016
Minister of Finance

Initiated by: Paul Flanagan
Executive Director

Date Prepared: March 3 2016

Ministry Contact: Steve Hawkshaw
Tax Policy Analyst

Phone Number: 250 387 7364
Email: Steve.Hawkshaw@gov.bc.ca

Cliff #: 349871

TITLE: BC Housing Affordability Fund Proposal

PURPOSE:

(X) FOR INFORMATION

COMMENTS: The province has received a proposal to introduce a new tax that would target property owners with limited economic or social ties to Canada and property owners who leave residential property vacant. The revenues would then be directed to a housing affordability fund.

DATE PREPARED: March 3, 2016

TITLE: BC Housing Affordability Fund Proposal

ISSUE: Whether to introduce a new property tax targeting property owners with limited economic or social ties to Canada and property owners who leave residential property vacant.

BACKGROUND:

The province has received a proposal to introduce a new tax that would target property owners with limited economic or social ties to Canada and property owners who leave residential property vacant. The goal of the new tax would be to:

"[make] British Columbia a better place to live and work, by making B.C. a less attractive target for investors who wish to avoid taxation or park cash in residential real estate."

The authors of the proposal define "limited economic or social ties" to mean those who do not pay (or pay a modest amount) of Canadian and Provincial income tax.

The new tax would take the form of a 1.5 per cent property tax levied on all residential property in a given region or municipality. For comparison, the average annual property tax rate for residential property located in a municipality (including provincial and municipal levies) is approximately 0.5 per cent.

The application of the tax would then be narrowed by a series of offsets and exemptions in order to only apply to property owners who do not pay a sufficient amount of federal and provincial income tax, or property owners who fall into certain exempt categories.

The proposed offsets and exemptions are as follows:

1. A dollar for dollar offset would be provided for federal and provincial income taxes paid by all members of a household. The rationale for using income tax is that income taxes are a proxy for contributing to the "local economy".
2. Veterans and those living with them would be exempt.
3. Disabled persons and those living with them would be exempt.
4. Canadian residents receiving CPP plan benefits or Old Age Security would be exempt.

5. Individuals who have resided in their *current* home for a significant number of years would be exempt from paying the tax on their current home, in order to protect long-time residents of a community. Additionally, they suggest that this could be a lifetime benefit, once an individual qualifies as a long term resident they would exempt in any home they occupy.
6. Occupied rental properties would also be exempted from the surcharge. The proposal suggests either using an offset based on gross rental revenue reported to the Canada Revenue Agency (CRA), or a complete exemption, provided some minimum amount of rental income is reported to the CRA. An income averaging mechanism is suggested to deal with temporary vacancies.

The goal of these offsets and exemptions would be to target owners of vacant properties, owners of multiple properties, and those who own property but do not pay a significant amount of income tax, such as so called satellite families.

Although not clear from the proposal, it is likely that the authors envision the program will be administered in a similar fashion as the home owner grant program. A taxpayer would receive their property tax notice and then apply online for an offset based on the amount of income tax they have paid, or indicate their eligibility for an exemption. Data would then be provided from the CRA to the Property Taxation Branch for audit and enforcement purposes.

Revenues from this tax would be distributed as lump-sum payments to all Canadian tax filers in a given region or municipality, or that they be used to reduce provincial tax rates. According to the proposal, this would help offset the cost of living in BC. The proposal estimates the tax on vacant properties in the City of Vancouver could raise approximately \$90 million.

DISCUSSION:

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Appendix: s.13,s.16

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- Ontario implemented two measures aimed at curbing house price inflation in the 1970s.
 - A 20 per cent transfer tax on non-residents of Canada s.13,s.16
 - An income tax on land speculation aimed at short term speculators (flippers).
 - The taxes were enacted in 1974 and repealed by 1978...
 - The 20 per cent rate for non-residents remained for the acquisition of certain land (farmland) until 1997.

The 20 per cent land transfer tax on non-residents

- This imposed a 20 per cent tax upon the acquisition of property in Ontario by non-residents of Canada.

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- The s.13,s.16 tax was imposed at a rate of 20 per cent (initially 50 per cent) of the excess of proceeds of disposition over the adjusted cost of acquisition, if property was sold before ten years.

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