

From: Andrea Westaway [mailto:awestaway@rebgv.org]
Sent: Tuesday, March 22, 2016 4:03 PM
To: OfficeofthePremier, Office PREM:EX
Cc: Craig Munn
Subject: Letter from real estate board presidet on assignment agreements

Dear Premier Clark,
Attached find a letter on behalf of Darcy McLeod, president of the Real Estate Board of Greater Vancouver. His letter is in response to your recent announcement about rule changes for assignment agreements in real estate.
He can be contacted via email at president@rebgv.org

Sincerely,

Andrea Westaway
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March 22, 2016

The Honourable Christy Clark
Box 9041 Station Prov Govt.
Victoria BC
V8W9E1

Dear Premier Clark:

On behalf of the more than 12,500 Realtors that we represent, I am writing to express concern at your decision to pre-empt the Real Estate Council's independent advisory group's review and introduce new rules on assignment agreements in real estate.

We are concerned that the provincial government is looking to change the rules to fix a short-term problem. We understand the intention is to curb speculation associated with the high demand, low inventory market Greater Vancouver is currently experiencing. There are often unforeseen consequences associated with attempting to impose limitations on the market and we respectfully ask that the government consider the following issues.

In other types of markets, assignments can protect sellers and buyers. For example, in pre-sale situations, which of necessity require a long time to complete, a buyer's circumstance may change which precludes them from closing. Financial, family or other personal situations change. In such cases, assigning the contract to a second buyer allows both the original buyer to honour the contract and protects the developer/seller who would otherwise have a contract potentially in default.

People who buy an assigned contract with the goal of reselling to make a profit are taking a risk. They may profit, or they may incur losses, sometimes substantial losses. For example, in the early 1980s similar activity occurred in BC relative to land sales, and speculators did indeed incur substantial losses. People also experienced losses of this kind in the presale market between 2008 and 2009. In the government's proposed model, profits are to go back to the original seller. Will that original seller also be responsible for any losses?

The term "shadow flipping" was coined to inflame public opinion. An assignment agreement is a regulated practice in BC.

The media has not let facts get in the way of painting a negative picture of Realtors in this story of assignments. We have shared with them, but they do not report, that our organization has yet to receive a formal complaint from the public about assignments.

There are already processes in place to deal with any Realtor in breach of their obligations and duties to their clients outlined within the *Real Estate Services Act* and our professional standards.

Our complaints process is posted on our public website. We administer the national Realtor Code of Ethics and the rules and regulations associated with being a member of our professional association. We and our members take very seriously any breaches to these standards. If Realtors are doing anything wrong, we want to know and we will vigorously investigate.

The housing affordability debate in Metro Vancouver is at a fever pitch today. It's become emotional and political. Amid this climate, it's important to remember that market cycles come and go, but government intervention is permanent.

We are concerned that the media hyperbole on this topic may lead to changes with unintended consequences once the market changes, as it inevitably does.

We welcome opportunities to work with your government to find solutions that help protect the public irrespective of current market dynamics.

Yours truly,

A handwritten signature in black ink, appearing to read 'Darcy McLeod', with a stylized flourish at the end.

Darcy McLeod, President
Real Estate Board of Greater Vancouver



a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

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February 24, 2016

The Honourable Christy Clark
Premier of British Columbia
Office of the Premier
740-999 Canada Place
Vancouver, BC V6C 3E1

Dear Premier Clark,

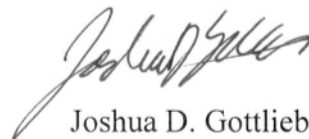
Thank you for taking the time to meet with my colleagues and me yesterday regarding our proposed B.C. Housing Affordability Fund. As you know, housing affordability is a significant problem for families and businesses in Vancouver and beyond. So I am writing to offer any further assistance that I may be able to provide as you continue to address this problem.

As we discussed, our proposal would help ensure that the Lower Mainland's limited housing stock is put to efficient use. It does so in a way that reflects fundamental principles of economic efficiency and protects all genuine B.C. residents.

President Harry Truman famously said, "Give me a one-handed economist! All my economists say, 'On the one hand...on the other.'" Our proposal represents a rare case of not just one, but numerous economists all gesticulating together with one hand. As you can see from the list of signatories for our proposal (enclosed), economists from different political perspectives and diverse backgrounds all agree that BCHAF is a substantive step that makes sense for B.C. It addresses one of the root causes of the housing crisis without demonizing any one group. So it speaks very highly of your government that you are considering our plan so seriously.

Should I be able to provide any further assistance on this or any other matter, I remain at your disposal.

Very sincerely yours,



Joshua D. Gottlieb

Cc: Barinder Bhullar, Director of Policy; Neil Sweeney, Deputy Minister
Enclosures: BCHAF policy proposal; BCHAF frequently asked questions

POLICY PROPOSAL: B.C. HOUSING AFFORDABILITY FUND

Housing costs pose a significant challenge for Lower Mainland households. Among the factors contributing to price growth is the inflow of money into the local housing market. We propose a B.C. Housing Affordability Fund (BCHAF) that delivers cash to BC residents, paid for by property owners with limited residential or economic ties to B.C. The BCHAF will 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.

Description and Precedent

The BCHAF will be funded by a new 1.5% property surcharge on residential real estate. The revenues will then be distributed as lump-sum payments to all Canadian tax filers in any area included. The tax would target owners of vacant properties and those with limited economic or social ties to Canada. All other owners will be exempt. The proposed BCHAF contribution structure would provide broader exemptions than those under the Home Owner's Grant, by allowing non-resident landlords and not-yet-landed immigrants with taxable Canadian earnings to claim exclusions.

Exemptions for Homeowners

Nearly all resident owner-occupiers should be exempt from the surcharge on one of the following bases:

- Veterans and disabled persons and those living with them would be exempt, as in the B.C. Home Owner's Grant.
- Canadian residents of retirement age would be exempt if they are recipients of Canada Pension Plan benefits or qualify for Old Age Security.
- Those who contribute to the local economy will have their BCHAF contributions reduced or eliminated. The BCHAF surcharge would be reduced dollar-for-dollar by Provincial and Federal income taxes paid by all members of the household. For example, the owners of a \$1,000,000 home would face a \$15,000 BCHAF contribution in a given tax year. If this household paid \$15,000 or more in income taxes, they would not have to contribute to BCHAF. If they paid \$10,000 in income taxes, they would owe at most \$5,000 to BCHAF, if not otherwise exempt.¹
- Those who have been part of the local economy for a long time would be exempt. Specifically, tax filers who have claimed their current homes as their principal residence for a significant number of years would be exempt. This would protect homeowners who are long-time residents of their communities, but would not be able to buy in at prevailing prices. The exemption could be a lifetime benefit so that households moving to a different home later in life would remain exempt.

Exemption for Rental Housing

To provide incentives for rental housing, and disincentives for leaving units vacant, non-occupant investors would only be able to claim exemptions for occupied rental units. Owners of rental properties should be allowed to offset BCHAF contributions based on the rental revenue they report to CRA. This could involve providing credits against the surcharge for gross rental revenue, or setting minimum gross rental revenue levels to claim complete exemption from the BCHAF charge. To accommodate periodic vacancies, landlords might be allowed to average across multiple years. To prevent fraud, exemptions should be denied for leases between family members.

Implementation

Which jurisdictions should impose an affordability surcharge is a political question. We recommend that the BCHAF be specific to a given locale, with jurisdictions choosing to join. By keeping the taxes paid in and the benefits granted specific to a given jurisdiction, BCHAF would provide the most help to those facing the strongest impacts of vacant units and capital

1 To further protect working homeowners, legislators may want to allow unused income tax credits to cover future years' contributions, and to offer couples where both partners earn moderate incomes a credit to reflect income tax progressivity. To further protect households, all taxes paid by all individuals claiming a tax home at a given address should be credited, whether the payer is on the title or not.

inflows on affordability.²

For any jurisdiction that participates in the BCHAF, revenues will be distributed as an equal lump-sum amount to all taxpayers in that jurisdiction. Eligibility for receiving the lump-sum payment will merely require filing the regular income tax and benefits return (T1) and being a resident of the jurisdiction.

Precedent

A total property tax rate of 2% is no higher than in many U.S. jurisdictions, and the BCHAF structure would retain rates under 0.5% currently faced by most households. The difficulty of building new housing units in the Lower Mainland suggests that the property tax share of revenues generated in B.C. should be relatively high, and the income tax burden lower. BCHAF would represent a small step in the direction of tax efficiency, without imposing higher obligations on the vast majority of B.C. taxpayers.

Economic Impacts

Estimated Benefit

BCHAF could provide considerable benefits to B.C. residents. Based solely on vacancy data, we estimate the surcharge could provide residents with roughly \$90 million per year in Vancouver alone.³ Revenues would likely be greater than this estimate, which is based only on vacant units, because there are likely owners of high end B.C. properties who would not qualify for any of the exemptions to the surcharge listed above. As politicians have emphasized, we lack the detailed data on income and taxes paid to make a precise forecast of potential revenue. An added benefit of the BCHAF program would be to obtain these data.

Financial Inflows and Vacancy

An additional effect of BCHAF could be an improvement in affordability by reducing the inflow of cash to residential real estate, thus reducing upward price pressure. We doubt that our proposal would have a detectable effect in this way. While a significant surcharge might discourage investment in B.C. housing, the number and composition of immigrants to Canada is largely determined by Federal immigration policy (though B.C. does have an increasingly important role through the Provincial Nominee Program). Given the excess demand for Canadian residency, we expect this proposal to have a limited effect on the inflow of capital with immigrants. Our expectation is that the primary benefit is to provide cash to ameliorate the negative effects of these capital flows on local residents.

Implementation of BCHAF would make participating jurisdictions less attractive to investors hoping to invest in real estate without paying taxes. In contrast, it would make B.C. a more attractive place to live and work. Critically, by raising the cost of holding a property vacant, BCHAF would also provide investors with an incentive to rent out currently vacant properties to B.C. residents.⁴

Conclusion

By taxing activities that make housing less affordable for current B.C. residents, the proposed BCHAF can provide significant benefits to Lower Mainland communities. Creating BCHAF would be a feasible and economically meaningful response to the rising tide of global financial flows into B.C. residential real estate. We have designed BCHAF to maximize the cash benefits available to those who live and work in BC, while creating exemptions to minimize the possibility that such residents would face any new tax burden.

2 An alternative would be to raise funds at the provincial level, and use proceeds to reduce tax rates. This would enhance overall efficiency, but would be difficult to implement when individual municipalities are choosing whether to join.

3 The estimated share of units in the City of Vancouver not occupied by usual residents is greater than it is in other Canadian cities. We assume that this difference in rates reflects investor held units subject to the proposed surcharge. For our calculations we assume these rates are 7.5% for condominium units and 2% among other housing units. If we assume that this rate is the same for both high and low value units, then using B.C. Assessment data and 2015 assessment values, incremental property tax paying into the BCHAF from the City of Vancouver alone would amount to \$90 million per year.

4 Immigration into participating jurisdictions would only increase to the extent that BCHAF makes living in B.C. more affordable, so the net effect could not be to reduce affordability to a representative household.

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Tsur Somerville, Sauder School of Business, UBC
Anthony Boardman, Sauder School of Business, UBC
Sanghoon Lee, Sauder School of Business, UBC

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**For updated information and answers to questions about the BCHAF, please visit
www.housingaffordability.org**

1. What are you proposing?

We propose an increased tax only on properties whose owners aren't contributing to Canadian public finances through their income taxes, either now or in the past. The revenue will be immediately paid out evenly to all local residents.

2. Why are you doing this?

To help make it a bit more affordable to live and work in the Lower Mainland of B.C. There is enormous value in B.C. real estate. This proposal leverages that value to make it more feasible to live, work, and raise a family here.

3. Is this just a back door tax increase or revenue grab?

No. The proposal is extremely clear that all of the funds raised in each community should be directly distributed to residents of that community. Everyone who files a tax return and declares their residence in, say, Vancouver will receive an equal share of the BCHAF revenue from Vancouver properties.

Alternatively, the revenue could be used to reduce income taxes. This could be accomplished either by lowering BC income tax rates or by changing the tax brackets. An increase in the personal exemption, or in other bracket levels, would allow people to earn more money at lower tax rates and have less of their earnings taxed at higher rates. Politicians will ultimately have to decide how best to distribute the BCHAF revenues.

4. What if someone can't pay?

If someone has a vacant property that is subject to BCHAF payments, they can always obtain an exemption by renting it out. This would benefit the local housing market, by increasing the availability of rental units. It would also benefit the property owner, since they would avoid BCHAF payments and also earn the high rents that B.C. real estate currently commands. Thanks to the many exemptions, no homeowner is required to lose money through the BCHAF.

5. Is this going to cause property values to fall?

Demand for real estate in the Lower Mainland seems to be extremely strong, as reflected by its high prices. Furthermore, most residents will be exempt from the tax. So we don't expect large effects on prices. If the proposal has any effect on the property market, it is likely to be by making property more affordable to people who plan to work—so won't be subject to the tax—relative to owners who would leave properties vacant. At any given home value, the property ownership costs will be lower for income tax payers, who are exempt from the BCHAF surcharge, than for owners of vacant units.

Furthermore, existing property values benefit when we make it more affordable for workers and families to live and work in the Lower Mainland. Improving the affordability situation will attract people who generate large positive spillovers. For example, they increase local amenities

and make firms here more productive. Anything that makes Vancouver more attractive is good for existing homeowners.

6. Are you trying to target certain groups of the population?

No. Our proposal applies equally to everyone, regardless of nationality, ethnicity, visa status, or any other characteristic. The exemptions apply for anyone who qualifies. For example, income taxes can be fully credited against BCHAF payments, at a rate of one dollar per dollar, regardless of the taxpayer's visa status.

7. Is your estimated revenue of \$90 million in Vancouver too optimistic?

No, in fact it's a conservative estimate. It is a baseline estimate based on non-reporting in a 2011 government survey. It does not allow for the possibility that non-exempt rates might be higher in high value neighborhoods, and that non-response may understate non-eligibility.

8. How does this compare to proposals for a grant to home buyers?

Our proposal is grounded in economic principles, and is a targeted solution for the situation facing the Lower Mainland right now. It ameliorates the affordability problem, whereas homebuyers' grants require a tax increase and make the affordability problem worse!

Specifically,

- (i) A grant to new home buyers is unfunded, so it will ultimately require raising tax rates on working families in B.C.—rates that are already very high. In contrast, our proposal is fully funded.
- (ii) The affordability problem is particularly severe for people who can't afford to buy a home. A home buying grant does not help those people.
- (iii) Our proposal reduces vacancies, while a buyers' grant does not.
- (iv) Our proposal makes it more affordable for working families to live in Vancouver. It only targets investment properties and asks for fair contributions from such investors. Thus our proposal likely has little impact on property values. In contrast, research has shown that subsidies like a home buyers' grant actually *worsen* the affordability problem and reward speculation.
- (v) Our proposal provides a way to learn the extent of such investment, while a home buyers' grant does not.

9. Is this the solution to the housing affordability crisis?

This is a modest proposal, so on its own will not dramatically reshape B.C. housing markets. The fundamental drivers of local housing prices are high demand and limited supply. The only way to have a decisive impact on affordability would be to weaken the building restrictions that sharply restrict new housing supply in most of Vancouver and the Lower Mainland. Major improvements in affordability are only possible by allowing supply to respond to changing demand. This proposal is a modest step to help out, but won't address the underlying problem of supply restraints.

10. If housing supply is still restricted, how can your proposal help?

Limited land availability, combined with strict zoning make it hard to build homes in and around Vancouver. Every unit left vacant thus reduces the number of units available for owner-occupiers or renters. By discouraging vacancies, our proposal helps to expand the supply of units available for actual residents to live in. Our proposal also gives a cost advantage to local residents over investors when competing to purchase homes that are for sale. Finally, the rebate check helps to reduce the overall income tax burden of living in B.C. This makes the province more business friendly.

11. Would this proposal hurt real estate investment in Vancouver?

No. Investment is limited by the supply restraints pervasive in Metro Vancouver, not by a lack of demand. Any effect on demand for holding vacant units would not reduce construction or adversely affect the real estate industry, since the industry is limited only by supply constraints, not by a lack of demand.

12. How much money will I get?

In order to calculate the BCHAF taxes and individuals' rebate, we would need to know the exemptions that property owners are likely to claim. No currently available data provide the information that we would need to determine how many exemptions will be claimed.

13. When will the province pay out this rebate?

The provincial legislature and government will have to work out the implementation details. They will probably wait until each year's BCHAF revenue is collected before determining how much is available for rebates in each municipality. They would then observe, or estimate, how many eligible recipients are in each municipality based on tax returns filed April 30 of the following year. The amount of the rebate will be the first number divided by the second. It could be paid out together with tax refunds, or in a separate payment.

14. Isn't this going to be expensive to administer?

No. It relies on existing assessments. These assessments are then multiplied by 1.5%. The exemption information is easy to report. And, while we expect people to be honest, the exemptions are also easy to verify since almost all of the necessary information is already on income tax returns.

This structure makes the BCHAF proposal much easier to administer than other proposals that rely on determining personal characteristics of the owner, such as citizenship or days of residency.