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March 5, 2018

The Honourable Carole James
Minister of Finance and Deputy Premier
PO BOX 9048 STN PROV GOVT
Victoria, BC V8W 9E2

The Honourable Selina Robinson
Minister of Municipal Affairs and Housing
PO Box 9056, STN PROV GOVT
Victoria, BC V8W 9E2

Dear Minister James and Minister Robinson,

Re: Housing Affordability and the Negative Impacts of Budget 2018

On behalf of the Urban Development Institute Pacific Region (UDI), we wish to share our comments on the numerous new housing-related taxes introduced in *Budget 2018*. Our comments reflect the concerns and priorities of UDI's over 750 member organizations representing all facets of the development and planning community. The real estate development industry generates almost \$23 billion in annual GDP and sustains over 233,000 well-paying and family-supporting jobs across the province. Our industry's continuing strength is critical to B.C.'s prosperity now, and in the future.

While UDI appreciates the efforts of your staff to provide clarification on a number of implementation issues from *Budget 2018*, the new tax measures remain a significant concern to our members.

Our members are also disappointed that there are no substantive measures in *Budget 2018* to deal with local governments on the lack of adequate zoning to meet housing demand, nor to reduce bottlenecks in the processing of permits. UDI has previously made recommendations on budget measures that could address this, including directly linking transit funding to increased housing density, and provincial incentives to assist Municipalities with additional resources to process permits.

The increases to the Luxury Property Transfer Tax (PTT), the Foreign Buyers' Tax (FBT), the School Property Tax, and the yet to be defined Speculation Tax, will only substantially add to the costs of residential development. All of these increased costs will ultimately be passed onto tenants and home buyers, further hurting affordability.

We understand the focus of the increases being made to the PTT, the FBT, and the School Property Tax, are intended to target speculation and reduce foreign demand in the housing market on sites above \$3 million. Regrettably, these new broad tax

measures will also be applied to development sites purchased to build all forms of housing, including purpose-built rental. Virtually all residential development sites are now above \$3 million in Metro Vancouver, so the impacts of these tax increases will be significant and will have the unintended consequence of further undermining housing affordability.

Further, if Government is relying on partnerships with the private sector to build a substantial portion of its 114,000-affordable housing commitment, Government must act quickly to reassure our industry that it is prepared to provide a stable regulatory and taxation environment. Rapidly increasing taxation measures, with little or no grandfathering, severely damages the confidence of both home builders and home owners, as well as lenders and equity investors, such as BC and Canadian pension funds who would potentially invest in new purpose-built housing projects.

UDI and its members remain keen to work with the Province to achieve the 114,000-unit commitment and improve housing affordability for all British Columbians. However, we have serious concerns the cumulative impact of the tax increases in *Budget 2018* could weaken our industry – a key sector of British Columbia's economy – and undermine the Government's ambitious efforts to increase housing supply and improve affordability.

We understand your busy schedules were not able accommodate a meeting with us in the weeks prior to the Budget. However, given the significant housing measures introduced in *Budget 2018*, we request an urgent opportunity to discuss our concerns and proposed solutions with you.

We have set out our comments on the attached pages with respect to the new tax measures, and our specific requests to mitigate the impacts of the taxes on our industry, and home buyers and tenants we serve.

It is our sincere intent to work constructively with you and your staff through the identified issues. UDI believes that without meaningful changes, *Budget 2018* will not meaningfully improve housing affordability and will serve only to layer on more taxes and costs to home owners and renters in our province.

Yours sincerely,



Anne McMullin
President & CEO

Enclosure: Attachment Schedule

Attachment Schedule

School Property Tax

Budget 2018 substantially increases the annual provincial School Property Tax on residential properties over \$3 million and will apply to most residential development sites. For example, on a typical \$30 million residential development site, the increased School Property Tax will be about \$106,000 every year. As you know, it can take several years for builders to obtain municipal approvals for projects. During this time, they will be paying hundreds of thousands of dollars in School Property Taxes for yet to be occupied sites generating no school demand. The School Property Tax increases during construction are even higher, as the value of sites increases when improvements are made. Over the course of construction, the cost increases due to the increase School Property Tax could be as high as \$400,000.

All of these increased costs will ultimately be passed onto tenants and home buyers; hurting affordability. For larger phased projects that take years and even decades to build out, the increased School Property Tax charges would be even more onerous.

UDI requests the Province exempt development sites from the proposed increases in the School Property Tax charges. To ensure that speculators are still charged with the tax, we recommend that project proponents be required to provide evidence that sites will be developed (e.g. letters of enquiry and applications to local governments or permits).

Luxury PTT

Effective February 21, 2018, the portion of PTT payable on residential properties above \$3 million increased from 3% to 5%. UDI has long argued that one of the key problems with the PTT is that it is applied two to three times during the development process: when development land is purchased; when serviced lots are sold to builders; and when units are sold to home buyers.

Because development sites are expensive and are virtually all over \$3 million in Metro Vancouver, the added tax will be applied in most cases when sites are purchased (including for purpose-built rental). For the \$30 million site noted earlier, the additional PTT paid by the project proponent due to *Budget 2018* will be \$540,000. The overall PTT paid will be \$1,418,000, which would be passed onto tenants and home buyers.

UDI requests the Province exempt the Luxury PTT (or at least the recent increase in it) when development sites are purchased. Alternatively, the Government could rebate the tax when units are occupied.

Foreign Buyers' Tax

The taxing of development sites is significantly more onerous for international pension funds and other foreign investors and their partners building purpose-built rental, strata, or seniors' projects in British Columbia. For the \$30 million site, the increase in the FBT from *Budget 2018* would be \$1.5 million, and the overall FBT paid would be \$6 million for a foreign builder. Limiting who can build housing in

British Columbia through increased taxes, will not help the Government achieve its 114,000-unit affordable housing objective.

Like the Luxury PTT, UDI requests the Ministry consider exempting or rebating the FBT when development sites are being purchased.

Grandfathering

UDI is extremely disappointed the Government decided not to provide grandfathering for projects in Metro Vancouver for either tax, and only 3-months for the FBT in areas outside of Metro. This is inadequate because it takes years for projects to be constructed and completed. We have repeatedly communicated to the Government that this disregard for contracts entered into in good faith exposes both the development industry and the BC government to costly legal action, such as the [class action lawsuit citing unconstitutionality and discrimination of the 15% foreign buyer tax, currently before the BC Supreme Court](#). The suddenness of these new taxes with no grandfathering provisions for existing contracts also undermines our Province's reputation as a stable economy to invest in.

UDI requests existing pre-sale contracts be exempted from the FBT. At the very least, the grandfathering period for the increases should be extended to one-year across the Province, including in Metro Vancouver.

Impact of the Speculation Tax

UDI was not opposed to the concept of a 2% Speculation Tax being applied to the urban areas of Metro Vancouver when it was originally proposed by academics. However, the Speculation Tax as proposed in *Budget 2018* has morphed well beyond the original proposal and could inadvertently capture British Columbian and Canadian non-speculators, including long-time family owned recreation and seasonal properties. We disagree with the Speculation Tax being applied to British Columbian and Canadian taxpayers, and being implemented in resort and cottage areas such as the Okanagan and the Gulf Islands. There is a shared concern that the broad scope of the tax will unintentionally harm the tourism sector, small businesses and British Columbians across the Province. This includes areas of the Province where the tax does not apply, because the Government has foreshadowed that the initial boundaries of it may expand.

UDI requests that the Speculation Tax not apply to British Columbian and Canadian taxpayers. We also request the tax not apply to development sites, as requested for the other taxes. UDI suggests delaying the implementation of the tax until next year so the Ministry can conduct thorough modelling analyses of the potential impacts on the communities where it will be applied, and have detailed consultations with local governments, business/tourism groups, the real estate industry and other key stakeholders in those areas before proceeding with the tax. Further changes to the tax will likely be necessary.