

PROPOSAL TO GOVERNMENT

Background

LandlordBC in partnership with the Urban Development Institute (UDI) is pleased to provide the Minister of Finance and the Minister of Municipal Affairs and Housing with a joint proposal on policy tools to spur new purpose-built rental construction in British Columbia.

The Province of British Columbia has committed to delivering 114,000 new rental, co-op and social housing units over 10 years. As the Province's comprehensive housing strategy takes form, our industry would like to be key partners in delivering this housing supply to help relieve some of the burden on government. Our members have the capacity to provide a variety of housing types to market, given the proper incentives.

A major impediment to building affordable purpose-built rental is ensuring that projects are economically feasible for developers. Recent rezoning and tax incentives by a handful of municipalities have generated a modest supply of private sector purpose-built rental housing. In most cases, these changes did not require public funding, rather forgoing a portion of revenues from development in exchange for the creation of purpose-built rental.

Another important consideration for incentivizing developers is to establish a stable regulatory environment for investment. Unlike strata developers who have three to five year time horizons, rental investors require certainty that the regulatory environment they operate in will be stable for decades. If the Province were to introduce further amendments to the Residential Tenancy Act that could add risk to these developers (e.g. reductions to the annual inflationary increases, eliminating the ability to adjust rents on tenant turnover), the wrong signals would be sent to purpose-built rental investors and would significantly jeopardize rental projects currently in the development pipeline.

In order to ensure the viability of the rental housing industry, continued investment in the maintenance and enhancement of existing buildings must be encouraged, in addition to prioritizing the development of critical new supply. As we struggle with aging rental housing and low vacancy rates, these priorities must be equally protected. While not specifically addressed in this submission, we are committed to ensuring the equitable treatment of displaced tenants, in particular, the most vulnerable. We are also supportive of the Government's proposed \$400 renter rebate as a component of a broader renter support strategy.

The following are policy tools that LandlordBC and UDI propose to incentivize purpose-built rental construction in British Columbia. Please note that our recommendations include substantial renovated and/or expanded purpose-built rental buildings:

Policy Tools

Policy Tools 1-4 address mechanisms to incent investment capital from condominiums to purpose built rental.

1. Property Transfer Tax (PTT) Exemption

Currently, the PTT is at 3% for all properties over \$2 million. Any increase in PTT would further undermine the economic feasibility for developers to invest in purpose built rental. By exempting purpose-built rental from the PTT, all other things being equal, ensures these projects are more attractive to invest relative to other real estate asset classes. An exemption of the PTT paid on land used to develop a new purpose-built rentals would help reduce costs significantly and thus narrow the disadvantage of rental as compared to condominiums. In the City of Vancouver, land sales are routinely at \$200 a buildable square foot or more. Three percent of this price equates to \$6 per buildable foot, which could serve as an important inducement to building rental as compared to building condominium housing.

Recommendation:

A complete exemption from the PTT for any purpose-built rental building which, at time of sale, is subject to GST. The rebate would be provided to the developer at occupancy when it is demonstrated that the project is a purpose-built rental building.

2. Provincial Sales Tax (PST) Rebate

Currently, PST rates are at 7% on all materials purchased for use in construction. Construction costs excluding soft costs and land are approaching \$300 a square foot for wood frame and over \$400 for concrete in Metro Vancouver. Approximately 40%, or \$120 for wood frame and \$160 for concrete, of these costs pertain to materials - where PST is included in this latter cost. By providing a PST rebate on materials purchased for the construction of purpose-built rental, developers will be able to save approximately \$8 a foot on wood frame construction and \$10 a foot on concrete construction.

A PST rebate for materials used in the construction of a purpose-built rental building would narrow the disadvantages which purpose-built rental faces over market condominiums.

Recommendation:

A rebate of the PST on all construction materials used in the construction of a new or substantially renovated purpose-built rental project. As with the PTT exemption, the rebate would occur at occupancy.

3. Property Tax Exemptions or Designating a Dedicated Property Tax Class for Purpose-Built Rentals

Property taxes are paid on an annual basis. Reducing this burden over a number of years would attract long-term investors to purpose-built rental. Unfortunately, some of our members have been informed by the City of Vancouver that these exemptions cannot be applied by the City to private sector entities. This process could be clarified or enabled by the Province. Private sector property tax exemptions for Heritage Restoration are already commonplace in many municipalities.

PROPOSAL TO GOVERNMENT

There is also an opportunity for the Province to lead by example. In addition to providing legislative support for municipal property tax exemptions or reductions, the Province could offer a joint tax incentive program with local governments. The Province would offer exemptions or abatements for its portion of the property tax if municipalities agree to offer the same incentive for their portion.

Another approach could be to develop a separate mill rate for purpose-built rental housing projects. The mill rate would apply to both the municipal and provincial portions of the property tax and would be lower than the rate for residential ownership units.

Recommendation:

The Province provide rental housing investors with reductions in property taxes for new projects and ensure that municipalities can do the same. Reducing the property tax burden on these projects would provide a key incentive for long term investors to consider purpose built rental as an economically feasible opportunity.

4. Pilot Funding Program to Incentivize Municipality Processing Times

Currently, average processing times for purpose-built rental projects in larger municipalities can be many years. Processing times have beleaguered development projects to the point where there is currently little incentive for developers to consider designing purpose-built rental because of the measurable cost associated with waiting for approvals. Many of our members have advised us of proposed rental projects that were eventually cancelled and converted to market condominiums due to extraordinary processing times.

To ease the burden of resourcing, the Province could create a funding program to incent municipalities to fast track approvals of purpose-built rental projects. For example, municipalities could pre-zone sites, increase resources (e.g. staffing or I.T.) or create a separate stream for processing rental projects. This pilot funding program would consist of a one-time provincial grant for municipalities at the time of approval to use at their discretion to boost processing capacity.

Recommendation:

The Province create a funded pilot program for municipalities specifically to expedite processing times.

Funding would be provided to those municipalities meeting provincially established metrics for approving purpose built rental.