



URBAN DEVELOPMENT INSTITUTE – PACIFIC REGION

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

Re: UDI 2019 Pre-Budget Submission

Dear Minister James,

On behalf of the members of the Urban Development Institute (UDI), we thank you for the opportunity to submit our comments and recommendations for consideration during the Government's preparation of Budget 2019. Our focus this year are recommendations to improve the tax measures introduced in Budget 2018, and proposed new incentives that could assist the Government in meeting its laudable objective of building 114,000 new social and rental housing units before 2027.

ABOUT THE URBAN DEVELOPMENT INSTITUTE AND THE REAL ESTATE DEVELOPMENT INDUSTRY

UDI Pacific Region is a non-profit and non-partisan association of the development industry and its related professions in British Columbia. UDI represents thousands of individuals involved in all facets of land development and planning, including: developers, property managers, landlords, financial lenders, lawyers, engineers, planners, architects, appraisers, real estate professionals, local governments and government agencies.

The Real Estate and Development Industry, has a significant positive impact on employment, economic growth and government tax revenues. An independent analysis conducted in 2017 found that the B.C. development industry annually:

- Contributes almost \$23 billion to the provincial GDP;
- Employs over 230,000 British Columbians; and
- Generates \$6.6 billion in revenues to governments at all levels.

Since 1972, UDI Pacific Region has been a partner in community building with governments and the public; and aims to improve both housing and job opportunities for all British Columbians in a sustainable manner through a positive policy/regulatory framework. UDI Pacific also serves as the public voice of the Real Estate Development sector, communicating with local governments, the media, and community groups. UDI also has extensive education programs focused on sharing emerging trends, new government initiatives and best practice with our broad membership.

REQUESTED AMENDMENTS TO IMPROVE THE *BUDGET 2018* TAX MEASURES

Taxes on Development Lands

Three significant tax measures on real estate were announced in last February's Budget – the Speculation Tax, the School Tax increase for properties valued over \$3 million and the Luxury Property Transfer Tax (PTT), which has been increased to 5%. At the time, UDI raised concerns about the taxes – primarily with regard to the unintended consequences of implementation on affordability. These three taxes measures were positioned as capturing luxury and/or secondary homes. However, all three may also apply to development sites – as most of these sites are valued well above the \$3 million threshold for the School and Luxury PTT, and could be potentially considered unoccupied second residential properties under the Speculation Tax.

The impacts of these measures on the cost of new housing is substantial. Based on a conservative 5-year development and construction timeline, homebuyers of a 700 square foot apartment in Burnaby could see an increase as high \$20,000 to \$25,000 due to the increased taxes on development land. This represents an incremental increase to the municipal fees, GST and PTT buyers already pay. The development lands designated for new rental buildings would also be subject to these taxes, which are the equivalent of an annual rent increase of \$850 for each unit.

UDI has had several positive discussions with yourself and Ministry of Finance officials regarding how to resolve the issue of the application of the Speculation Tax to development lands before the legislation is introduced in fall 2018. If the Government recognizes the principle that taxation of development lands ultimately hurts affordability, we urge the Government to take immediate steps to also ensure that development lands are also not subject to the School Tax and Luxury PTT. Although the School Tax and the Speculation Tax are different, their application and impact on development lands is very similar.

UDI recommends that sites in which there is development pre-application (see below) or application (e.g. rezoning, sub-division, development permit, or building permit) before a municipality, be exempt from the Speculation Tax. We also recommend the inclusion of an exemption period for any unsold inventory after occupancy has been granted.

It should be taken into consideration that when a site is purchased for development, it often takes at least two years to work through the planning process prior to submitting an application to a municipality. Thus, during this pre-application process, the Speculation Tax should be exempt so as to mitigate the impact this tax will have on housing costs. Further, if a municipality decides to halt the acceptance of applications and development for a period of time, like the current moratorium on development along the Broadway Corridor in the City of Vancouver, than these sites should be exempted until application submission are re-opened.

UDI also recommends that the Province amend the application of the School Tax, on development lands based on the principle that it will negatively impact affordability.

Because the Luxury PTT is a one-time tax, the approach to resolve its impact on development land will have to be different than the other two taxes. We note at this stage, the Government will be receiving PTT paid by homebuyers for new units that are sold.

UDI recommends that the additional luxury PTT paid by proponents, which was implemented in Budget 2018 be rebated to them when homebuyers occupy units and have paid PTT.

Beyond the unintended consequences of the application of *Budget 2018* taxes to development lands, UDI is still very concerned with the broad application of the Speculation Tax to units owned by taxpaying British Columbians and Canadians. We recognize that modest improvements to the original proposal have been made – additional geographic areas have been exempted and the taxes applied to British Columbians and Canadians have been reduced. However, the government has estimated that over 60% of the properties targeted by the Speculation Tax are owned by British Columbians. Outside of Metro Vancouver, we also continue to see negative impacts from the mere prospect of the Tax on secondary/recreational sector projects. This is occurring even before the legislation has been introduced; in part because the Government has signaled that the geographic scope of tax could be expanded in the future. Many of the impacted communities rely on tourism for jobs and their economies.

UDI recommends that Canadians be exempted from paying the Speculation Tax and that it not be applied to communities outside of Metro Vancouver unless local governments have been afforded the choice to opt-in or out of the tax.

PROVINCIAL SUPPORT FOR RENTAL HOUSING

UDI continues to support the development of purpose-built rental housing in the Province, and we are pleased to see the introduction of programs to further incentivize rental housing, however, *Budget 2018* included several added costs for new rental projects that counteract these incentives. Support for rental housing will be key to achieving this Government's objective to encourage the construction of 114,000 new homes for British Columbians, and we hope that the following issues will be considered in the development of *Budget 2019*.

UDI applauded the Government's announcement at UBCM by the Minister of Housing, the Honourable Selina Robinson, to improve municipal processing times. Time adds to the costs of housing, so any reductions in processing times will make more projects viable – especially new purpose-built rental housing. We look forward to working with the Province and our local government partners on this important initiative. One initiative we suggest is that the review is a provincial funding program to fast track approvals of purpose-built rental projects that would ease the burden on municipal resources. UDI would also like to work with the Government to encourage municipalities to utilize other incentives for new rental housing (beyond property tax reductions), such as density bonusing, and reductions in municipal charges. The Government could review how municipal incentives could be leveraged by provincial programs for new rental housing.

Property Tax Exemptions for Rental Housing

We would like to highlight a new tax measure in *Budget 2018* that UDI and Landlord BC advocated for and strongly support – the potential matching of provincial property tax exemptions for new rental housing. As we understand the [policy](#), “the Province will mirror the increase to the available property tax exemptions provided under municipal revitalization agreements for qualifying purpose-built rental housing.”

We commend the Government for taking this important action and we look forward to working with local governments to leverage this potentially valuable program. Even in today’s environment of relatively low interest rates and accessible capital, ensuring the viability of new purpose-built rental projects remains extremely difficult. Every incentive that can be offered to proponents is helpful, and we hope that other incentives such as this will be implemented in the future.

UDI recommends that the Province work with industry and key stakeholders like UBCM to promote this program to local governments and rental housing advocates, and create a system to track the program’s implementation.

Sustainable Property Tax Exemption and Incentives

UDI believes that provincial property tax exemptions could be beneficial for new and existing rental buildings to encourage the adoption of green or energy efficiency measures, which is the Government’s stated goal in the [Clean, Efficient Buildings Intentions Paper](#). Unfortunately, there are currently property tax disincentives to improve the energy and water efficiency in buildings. When energy efficient building features are incorporated in new and existing projects, the valuations increase, and as a result so do the property taxes.

It will be important for the Government to offer exemptions and other sustainable building incentives and financial mechanisms for rental projects in particular. Incentive programs like these may become critical if the Government proceeds with mandating energy efficiency through both the adoption of the *Energy Step Code* in the *B.C. Building Code* and the adoption of the *Building Code for Existing Buildings* as described in the *Intentions Paper*. As noted above, new purpose-built rental projects already face financial obstacles, and this will be exacerbated with the recent further restrictions on the annual Allowable Rent Increases. Older buildings will face a tough balancing act with both seismic and energy efficiency upgrades expected and Government pressure to keep rent increases down.

We acknowledge that this issue is pervasive across housing types and note, for example, that strata corporations of older buildings will find that balancing affordability with mandated upgrades will be as difficult as it is for landlords. An exemption would offset tax increases due to energy/water efficiency features incorporated in new and existing buildings, and encourage local governments to do the same.

UDI recommends the creation of a Sustainable Property Tax Exemption, for the Provincial portion of the property tax, which would apply to both rental developments and other building types/tenures.

UDI has one caveat to this recommendation. As we noted in [our response](#) to the *Intentions Papers*, the Government should be discerning where money is invested, because for some buildings, it could be more advantageous that redevelopment occur – rather than renovations. It would not be cost efficient to heavily invest in building upgrades in areas where municipal plans are in place that encourage the densification of sites, as those upgrades and the embodied carbon would be lost when the buildings are demolished. Decisions will have to be made on a site-by-site basis. For example, it would likely be more cost effective and environmentally friendly to redevelop a sixty-year-old three-storey rental building next to a SkyTrain station than to make substantive seismic and energy efficiency upgrades to it. It would be better if the government funding was used instead, to increase the number of low-end market rental units on the site during the redevelopment process, and to assist tenants in relocation (see below).

Property Transfer Tax Exemption

Beyond just exempting the *Budget 2018* Luxury PTT on development land, the Government could go one step further by exempting the entire PTT for new purpose-built rental housing projects. By taking this additional step, all other things being equal, it 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 new purpose-built rentals would help reduce costs. In the City of Vancouver, land sales are routinely at \$400 a buildable square foot or more. Exempting the PTT in place before *Budget 2018* could result in almost \$12 per buildable foot of savings, which could serve as an important inducement to building rental as compared to building condominium housing.

UDI recommends a complete exemption from the PTT for any purpose-built rental building which, at time of sale/completion, 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.

Provincial Sales Tax (PST) Rebate

A PST rebate for materials used in the construction of a purpose-built rental building would minimize the disadvantages faced by purpose-built rental compared to market condominiums. Currently, PST rates are at 7% on all materials purchased for use in construction. Construction costs, excluding soft costs and land, are approaching \$300 per square foot for wood frame and are 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 \$9 per square foot on wood frame construction and \$12 per square foot on concrete construction.

UDI recommends 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.

Redevelopment of Rental Housing Sites to Increase the Number of Affordable Rental Units

As noted above, we believe that there is an opportunity for the provincial government to provide assistance when older, low density rental buildings are being redeveloped. We have found that some local governments are wary of allowing the redevelopment of older rental housing stock because of two primary issues:

- The loss of older affordable rental units; and
- The challenges related to relocating existing tenants.

At the same time, we are facing a dilemma. Much of this older rental housing stock is getting close to end of its useful life. In addition to large maintenance upgrades, seismic and energy efficiency upgrades will also be required in the coming years, which will require substantial government incentives or increases in rents, which may make the units unaffordable to renters, as mentioned above.

One option to ensure the provision of affordable rental housing, is for municipalities to increase the density of sites if some rental housing units are offered at below-market rates. For proponents of large properties, entire sites could be set aside for affordable housing projects.

To address the challenge of tenant relocation, we suggest that residents facing relocation be given priority for BC Housing funded projects nearby. In exchange, proponents of rental redevelopment sites, could be required to provide priority for any affordable units in their new building to local residents on that same registry once their project is completed. Ideally, this would allow each relocation to be permanent, not temporary, and therefore reduce the turmoil in peoples' lives.

UDI recommends increased access to BC Housing funding and programs during the redevelopment of sites, to support the efforts of municipalities to increase the number of affordable units.

We know that this approach requires coordination between municipalities, the Province, the industry and tenants. We believe the best opportunity for such coordination is when local governments conduct Area Plans. These junctures are the optimal for all the parties to work together to address the problem and increase the number of market and non-market rental units.

UDI understands that renters across the province are frustrated by high rents and record low vacancy rates. We acknowledge that Government alone cannot solve this problem, and as such, UDI has established a Rental Housing Committee and have also worked with Landlord BC on a list of potential incentives for new purpose-built rental housing. We ask that the Province consider engaging with this Committee as changes affecting rental housing are contemplated.

To further collaboration efforts suggested above, UDI would like to work with the Province in encouraging other levels of government to provide rental incentives. We are disappointed that the Federal Government has not yet moved forward with its campaign commitment to eliminate the GST on new purpose-built rental housing, and would like to collaborate with the Ministry of Finance in its efforts encourage its Federal counterparts to provide this much needed incentive for rental housing builders.

UDI would like to express our disappointment with the decision to accept the recommendation by the Rental Housing Task Force to restrict the annual Allowable Rent Increase formula to CPI only. We are deeply concerned about the far-reaching unintended consequences of this recommendation. Such changes will make new purpose-built rental projects, which are already facing many financial hurdles, even more unviable. To ensure that purpose-built rental projects are not delayed or cancelled, we recommend that additional incentives be provided – especially if the Province is genuinely committed to achieving its target of building 114,000 units in the next nine years.

CONCLUSION

In conclusion, we would like to thank you and Ministry officials for working with our industry over the past year. We believe this dialogue has resulted in better policies and assisted the Government in meeting its objectives, while minimizing the impact on our members and the homebuyers, tenants and businesses they serve. We hope these discussions can continue as the Government moves forward with preparation of Budget 2019.

We ask that you consider our recommendations, and we would be very interested in discussing them further with you and Ministry of Finance officials. If you have any questions regarding our Pre-Budget Submissions, please do not hesitate to contact me.

Yours sincerely,



Anne McMullin
President & CEO