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Chair Bob D'Eith and
the Select Standing Committee on Finance and Government Services
Room 224, Parliament Buildings
Victoria, BC V8V 1X4

Dear Chair:

***Re: Budget 2021 Submission of the Urban Development Institute***

On behalf of the 950 members of the Urban Development Institute (UDI), we thank the Committee for the opportunity to submit our comments and recommendations for *Budget 2021*. We believe that through our recommendations, the Government can restart the economy in the wake of the serious impacts of the COVID-19 pandemic.

Please note that in our submission, we do not address the immediate needs of our members and the businesses and residents they serve related to COVID-19, such as extending the rent supplement program for landlords as long and the *Emergency Program Act* (EPA) and Public Health Officer's (PHO) Orders are in place. These issues are immediate in nature, and need to be addressed well before *Budget 2021* is introduced next February.

Our focus is on recovery measures that are critical to British Columbia's economy as the immediate health and financial impacts of COVID-19 begin to subside. Our proposals will also seek to assist the Government in meeting its laudable objective of building 114,000 new affordable housing units before 2027, as well as its climate change goals. The three key areas we ask that the Government consider in *Budget 2021* are:

1. Housing Tax Policy;
2. Transit and Transportation Funding; and
3. The CleanBC Strategy.

## 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: builders, property managers, landlords, financial lenders, lawyers, engineers, planners, architects, appraisers, construction companies, 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.

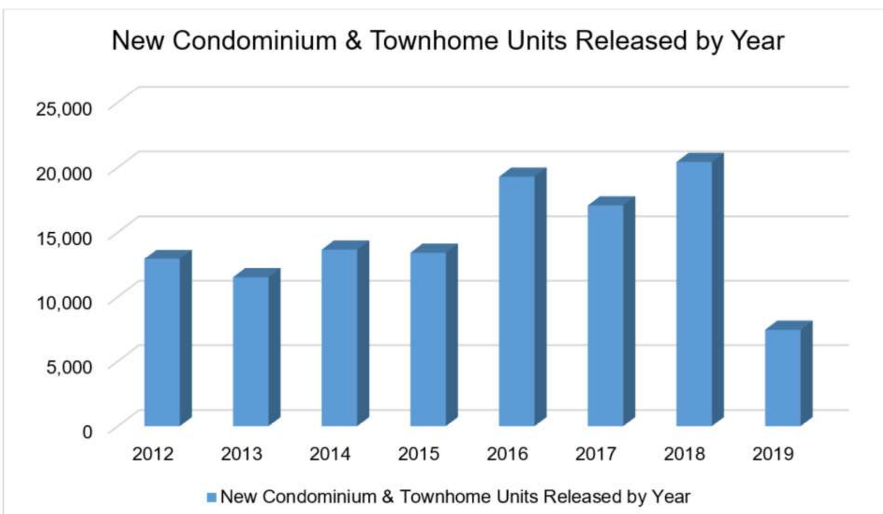
## HOUSING TAX POLICY

Since the introduction of a host of housing tax changes beginning in *Budget 2016*, UDI has raised significant concerns pertaining to the direct and indirect impact that a number of recent tax measures introduced by Province would have on the supply and affordability of much-needed housing (including affordable and rental housing) for British Columbians. These taxes included:

- Speculation & Vacancy Tax (SVT)
- Additional Property Transfer Tax (also known as the "foreign buyers' tax" or FBT);
- a "luxury" marginal Property Transfer Tax rate of 5% on residential properties valued in excess of $3,000,000;
- Additional School Tax (AST); and
- Provincial legislation enabling the implementation of City of Vancouver's Empty Homes Tax (EHT).

These tax measures are currently applicable to development lands and unsold inventory, which add to the cost of housing and discourage the supply of new homes.

We are already experiencing a shortfall of new housing. Between 2016 and 2019 there was a 60% drop in multi-family project launches in Metro Vancouver. In fact, in 2019 there were only 7,464 units released for sale, which is far less than a normal year (please see the table below). As of the beginning of 2020 there were 44 multi-family projects with over 17,000 units on hold. All of this occurred before the COVID-19 crisis. We have also seen a precipitous drop since the beginning of the year in new projects. So far, in 2020, only 2,207 units have been released for pre-sale.




*Metro Vancouver data as presented by Urban Analytics*

The Government has taken some steps to reduce these taxes on development lands/unsold inventory, especially with regard to the exemptions offered under the SVT, but much more work still needs to be done to make a meaningful difference in housing for British Columbians.

## Exempting Partnerships with Foreign Capital from the Foreign Buyer's Tax

Last month, the Province amended the *Property Transfer Tax Regulation, B.C. Reg. 74/88* (the PTT Regulation) in an attempt to implment measures announced in *Budget 2020* that were to make the treatment under the FBT regime of corporations and certain limited partnerships (LPs) consistent. This amendment was to recognize that foreign capital often supplements the equity that many Canadian homebuilders require to create housing in British Columbia.

The impact of this amendment on Government revenues should have been negligible because it was intended to simply clarify the existing rules as they pertain to LPs that include a minority of foreign limited partners. However, the current language of the PTT Regulation appears to introduce a new modification to the existing rules which applies prospectively, creating an unfair result for existing partnerships created prior to the effective date of the PTT Regulation since it adds to the uncertainty of the existing rules rather than clarify them.

Under new section 22 of the PTT Regulation, if a general partner of a LP purchases land to which the FBT applies, the LP is exempt from the FBT if all of the following conditions are met:

- "On the date of transfer of the property (or other application for registration of the taxable transaction at the Land Title Office):
    - each general partner of the limited partnership is either a Canadian citizen, permanent resident of Canada or a corporation other than a foreign corporation;
    - the combined interest in the limited partnership of all the foreign limited partners accounts for less than half of the partners' entitlement to share in the profits of the limited partnership; and
- Each general and limited partner of the limited partnership is a resident of Canada for income tax purposes throughout the taxation year in which the taxable transaction occurs."

Given that the amendment only applies in rare circumstances when the general partner of the LP becomes the resistered owner of the land. In the vast majority of development land acquisitions, a nominee company of the LP will purchase sites due to the fact that the partners of the development project are not firmly established at the time of initial site acquisition and, in fact, the LP itself may not exist at the time the sites are put under contract.

***UDI recommends that section 22 of the Property Transfer Tax Regulation, B.C. Reg. 74/88 be amended to remove the requirement that a general partner of a limited partnership must be the registered owner of the land purchased for residential construction. We also recommend that the application of section 22 be made retroactive to August 1, 2016, when the FBT was put in place, so that it provides clarity of the rules in a fair and consistent manner.***

## Exempting Foreign Capitalized Builders from the Foreign Buyers' Tax

In addition to LPs with a minority of foreign limited partners that create new housing supply in British Columbia, there are number of foreign capitalized builders (FCBs) with a proven track record of creating housing supply for British Columbians. These FCBs want to continue this positive work but, since the introduction of the FBT, they have been effectively excluded from acquiring residential sites for redevelopment. As these FCBs are not currently purchasing residential sites, they are not currently paying FBT. Therefore, the introduction of an exemption to enable FCBs to continue creating housing supply in British Columbia, should be revenue-neutral to the Province.

***We recommend that the Province considers introducing new measures to exempt FCBs that meet certain conditions, as outlined in the attached appendix, from the application of the FBT.***

**<u>Exempting Development Sites from AST</u>**

It can take up to six years for a project to go through the permitting and rezoning process. During the process, the AST can apply in every year of the project's lifespan, since most housing projects are on sites that are well in excess of the $3,000,000and $4,000,000 thresholds. In fact, the AST can increase during the permitting phase and during construction because the value of land and improvements is added to a site's assessment.

The AST can also apply to purpose-built rental (PBR) buildings when their value exceeds the thresholds noted above. This counterproductive to the Province's objective to create more PBR housing.

***UDI recommends that the current SVT exemptions applicable to sites under development be extended to the AST***.

**TRANSIT/TRANSPORTATION FUNDING**

UDI has long supported ongoing senior government funding for transit and transportation projects. This infrastructure services the projects our members build – transit stations serving mixed use, commercial and multi-family residential buildings, or highways serving industrial uses.

These are also great projects for "kick-starting" economic and job growth, which is needed now more than ever to address the impacts of COVID-19 on our Province. In addition, it improves transportation linkages within regions. As noted in TransLink's *Transport 2050 Discussion Paper*, the annual cost of congestion in Metro Vancouver is $500 million to $1.4 billion. Funding transit will also assist the Province in achieving its goals of reducing greenhouse gas (GHG) emissions, improving public health and increasing housing affordability opportunities (see below). As such, ***UDI strongly supports continued provincial funding for transit and transportation projects in British Columbia***.

However, there are two key areas of concern for our membership with regard transit and transportation funding – the growing reliance on the new construction sector to fund TransLink, and the need to link transit funding to land use planning/outcomes.

**<u>Increasing Reliance on the Building Sector to fund TransLink</u>**

As noted above, UDI has recognized that transit expansion is important for the Metro Vancouver as well as our members. In fact, we conditionally supported the creation of a TransLink Development Cost Charge (DCC), which is now in effect – on top of local government transportation DCCs.

When we supported the TransLink DCC, we were assured by TransLink that "*Should an increase to the DCC rates above inflation be considered by the Mayors' Council for incremental funding for future Investment Plans, substantive consultation would need to be undertaken as a requirement of the expected legislation*." Before the DCC legislation was approved by the Province, and only three months after the original tax and rate was approved by the Mayors' Council, the DCC rate was increased 30% with no consultation with builders and little notice.

Now, TransLink and others are exploring additional potential charges on builders such as Land Value Capture (LVC), an Annual Area Benefiting Tax and a variable rate DCC. UDI's response to the TransLink study on LVC is appended to this submission. In addition, we are concerned that this is occurring at a time when our members are facing a challenging economic environment because of COVID-19 and a number of policy pressures imposed by all levels of government, including:

- A proposed Federal Vacancy & Speculation Tax on Residential Properties;
- Ongoing Federal restrictions on mortgage lending such as the 2018 "stress test" imposed by the Office of the Superintendent of Financial Institutions, and the recently announced changes to the Canada Mortgage and Housing Corporation underwriting policies for insured mortgages;
- The provincial taxes that apply to development lands noted above;
- A proposed future Metro Vancouver water DCC on top of a 2018 Greater Vancouver Sewerage and Drainage District DCC increase of up to 200% for some projects;
- Substantial increases to DCC and Community Amenity Contribution rates in several municipalities; and
- Increasing requirements for new projects such as the *B.C. Energy Step Code* (see below) and Electric Vehicle Charging Infrastructure.

***We ask that the Government and TransLink not add to these issues with new fees/taxes for new construction***. Instead, other sources of revenue, such as the road pricing, need to be contemplated.

**Linking Transit Funding with Land Use Planning Outcomes**

UDI has long advocated for the need to link transit investments with land-use planning. This is critical to fully leveraging the billions of taxpayer dollars being used to fund transit capital programs and operating costs. This is not only important for the economy and increasing transit revenues, it is also needed if the Province is going to meet its GHG emission reduction, public health and affordable housing goals.

Unfortunately, after over 30 years of SkyTrain, there are too many rapid transit stations in the Region that are surrounded by low-density housing and commercial uses. There is little point in investing in billions of dollars in transit infrastructure if only a few people are allowed to live and work nearby.

The Province and local governments that receive substantial transit infrastructure investments need to work together to ensure that increased housing and job spaces are zoned within 800 metres of our mass transit stations. This Transit Oriented Development (TOD) approach will help meet other provincial objectives that all political parties support, including:

- Fully leveraging tax-payer investments in transportation infrastructure with increased ridership;
- Economic development benefits from a more connected region (noted above);
- Carbon emission reductions as multi-family units are smaller and better protected from the elements, and people are more likely to walk, bike or take transit to destinations rather than cars;
- Improved public health (and thus lower health-care costs) as people are utilizing more active transportation options; and
- Improved affordability for households as multi-family units are smaller and vehicle ownership/commuting costs are lower for households in TOD areas (as detailed in the *Metro Vancouver Housing and Transportation Cost Burden Study: A New Way of Looking at Affordability*).

***UDI continues to recommend that transit investments in local communities be linked to land-use changes commensurate with those investments. This could be accomplished through the further development and implementation of Transit Supportive Policies Agreements between TransLink and local governments that are signed when commitments for new transit are made. However, we believe these Agreements need to be improved, so they:***

- ***Are binding on future Councils;***
- ***Include more specific housing targets that need to be achieved;***
- ***Are co-signed by senior levels of government that are providing much of capital funding; and***
- ***Include penalties if targets are not being met, such as reduced transit services or increasing the TransLink Property Tax.***

**CleanBC STRATEGY**

The Premier, the Hon. John Horgan, has made it clear that the Province's Climate Strategy, *CleanBC*, will be the centerpiece of British Columbia's economic recovery, stating "*When I announced our restart plan, I made it abundantly clear that the foundation of that plan was CleanBC*."

As noted in the previous section on linking transit investments with land use planning and outcomes, we can achieve a growing economy and meet our climate goals – as well as other objectives. There are other steps under *CleanBC* that the Government can take to reduce carbon emissions while supporting business and job opportunities – mass timber construction and green building technology. However, both will require government investments.

**<u>Mass Timber Construction</u>**

UDI is pleased that the Province is working with local governments and builders on the Tall Wood Initiative, so our members have the option to construct "*… encapsulated mass timber buildings up to 12 storeys in height*," and that the Ministry of Municipal Affairs and Housing has appointed an Assistant Deputy Minister of Mass Timber Implementation. We have been very supportive of this type of construction and have held several Breakfast Seminars and Webinars on the issue, and would be pleased to involve the Province in future events.

There are some clear advantages that Tall timber has over concrete and steel with regard to GHG emissions during construction (embodied carbon). "*The estimated avoided and sequestered greenhouse gases (GHGs) from the wood used in …*," the Tallwood House at Brock Commons "*… is equivalent to removing 511 cars off the road for a year. The total carbon dioxide equivalent avoided by using wood products over other materials is more than 2,432 tonnes*."

Mass timber construction would also assist B.C.'s forestry dependent communities due to the extensive use of wood. Economic development is and should also be as a result of new investments in production facilities for value-added prefabricated building components. This is already happening in communities such as Penticton and Castlegar.

The initial findings of the cost of tall timber construction range from 4% to 7% higher than concrete, but we anticipate that these costs will decline as more buildings are constructed and more project teams gain experience with tall timber buildings. One issue that we believe needs further exploration is how prefabrication can reduce construction costs and times. The prefabricated components could also be utilized to assist builders in meeting energy efficiency requirements noted in the next section.

Another issue that needs to be addressed is insurance. There is a wariness amongst some in the insurance industry regarding both mass timber buildings – and even six-storey wood-frame construction. This is critical to our members because in the last year strata insurance costs have been rapidly increasing, and this has added unforeseen substantial costs to homeowners.

***UDI recommends that the Government invest resources in this emerging approach to construction by:***

- ***Supporting local prefabrication/modular production facilities to supply the B.C. market and other jurisdictions;***
- ***Establish an approach to quickly certify mass timber products, so they can be used in projects without facing approval delays;***
- ***Improve the training of designers and construction trades, so they can become for familiar with this new type of construction; and***
- ***Converse with the insurance industry to resolve their concerns with mass timber construction.***

**Building Energy Codes**

UDI has been involved in the development of the [*B.C. Energy Step Code* (*ESC*)] since its inception in 2014, and we have sat on the Energy Step Code Council since its creation. We have also held numerous educational events on *ESC* to prepare our members for municipal and provincial energy requirements in new construction. Recently, UDI has also been working with Ministry of Municipal Affairs and Housing staff on the development of the proposed *Alterations Code* (the *Building Code for Existing Buildings*) that is anticipated to be in place by 2024.

While we are confident that our members can meet the lower steps of the *ESC* in Lower Mainland and the Capital Region, we are concerned about their ability to meet the higher steps without incentives being offered by the Province, utilities and municipalities. We are concerned that local governments may mandate the higher steps of the *ESC* without the needed incentives when the Province updates the *B.C. Building Code* (*BCBC*) with new energy requirements in 2022. This could be further complicated if additional requirements are made to reduce GHGs in projects at the same time.

***To address these issues, UDI recommends that:***

- ***The Province increase awareness of energy efficiency expectations for new and existing buildings through a public education campaign;***
- ***The Province and utilities provide substantial incentives for projects built at the higher steps of the ESC, in addition to a long term reduction in financial barriers through tax and fee reductions or rebates;***
- ***The Province work with local government to strongly encourage them to offer incentives – especially density increases – which would be especially helpful in the TOD areas noted above; and***
- ***If the GHG requirements are mandated for new construction, they be incorporated in a way, so that builders are provided options. For example, in several communities, proponents can build to a lower step of the ESC if they reduce carbon emissions.***

With regard to the *Alterations Code*, it is not clear how many owners will be able to afford to pay for substantial renovations to their buildings to improve energy efficiency, meet seismic standards or remove asbestos – without incentives – especially PBR owners.

As we discussed in our December 2019 letter to the Ministry of Municipal Affairs and Housing, we remain concerned that if the Province proceeds with the implementation of the *Alterations Code*, it could have a negative impact on housing affordability. Where major upgrades are required, we fear that they will be accompanied by substantial costs, which will be borne by

building owners (homeowners, strata owners and landlords) irrespective of their financial capacity or access to financing to fund the improvements. In the case of rental buildings, these costs will be passed on to tenants. If this is not possible, investment in needed new PBR projects would diminish – restricting the housing options for British Columbians.
In addition, newly upgraded buildings will add costs for commercial tenants. This may be less of a problem for established firms, but for start-ups the added costs may become an obstacle for them to find space. This challenge will be exacerbated by the COVID-19 pandemic, which has had a devastating impact on many small businesses.

***UDI recommends that the Alternations Code not move forward without substantial incentive programs and financial mechanisms to fund the mandated improvements. This requires further discussions with building owners, tenants and businesses.***

There are also steps that the Government can take that will assist builders and building owners with the *ESC* and the *Alterations Code*. ***As a first step, the Government could remove the current property tax disincentives for building upgrades. Currently, if energy efficiency improvements are incorporated into new projects or added to existing buildings, BC Assessment increases the valuations of them, which leads to higher property taxes.***

Another area where the Province could provide assistance is in skills training. We are deeply concerned that as we move to the higher steps of the *ESC*, and the *Alterations Code* is rolled out at the same time, the labour shortages builders have been facing will be exacerbated – adding costs for new construction and the upgrades mandated under the *Alterations Code*. As with mass timber construction, ***UDI recommends that the Province expand funding for designers and construction trades training as well as building officials, so we have a workforce that is ready for the future in green building construction. This will be especially important in the interior and the northern parts of British Columbia.***

**CONCLUSION**

In conclusion, we would like to thank you and the Select Standing Committee on Finance and Government Services for the opportunity to submit our recommendations for Budget 2021. We believe that the measures outlined above will support government objectives, including the creation of new affordable homes and assist in meeting provincial climate change goals. As British Columbia moves forward with the provincial restart plan, we hope that Budget 2021 will make the investments that are needed to support the building industry as we continue to build homes, offices, retail and industrial spaces across B.C.

We ask that you consider our recommendations, and we would be very interested in discussing them further should additional information be required. If you have any questions regarding our Budget Submission, please do not hesitate to contact me.

Yours sincerely,

Anne McMullin
President and CEO, Urban Development Institute