To: **UDI Board of Directors**

From: **Anne McMullin, President and CEO**

Date: **June 17, 2015**

Re: **UDI Position on Proposed Luxury and Speculation Taxes**

Issue:
The Mayor of Vancouver, Gregor Robertson, recently requested that the Province increase the Property Transfer Tax (PTT) on luxury homes, and introduce a speculation tax "… *to discourage the quick resale or 'flipping' of new housing*…". The request was rejected by Premier Clark, but the issue has been widely debated in the press. Many are concerned about the impact of foreign investment on housing prices.

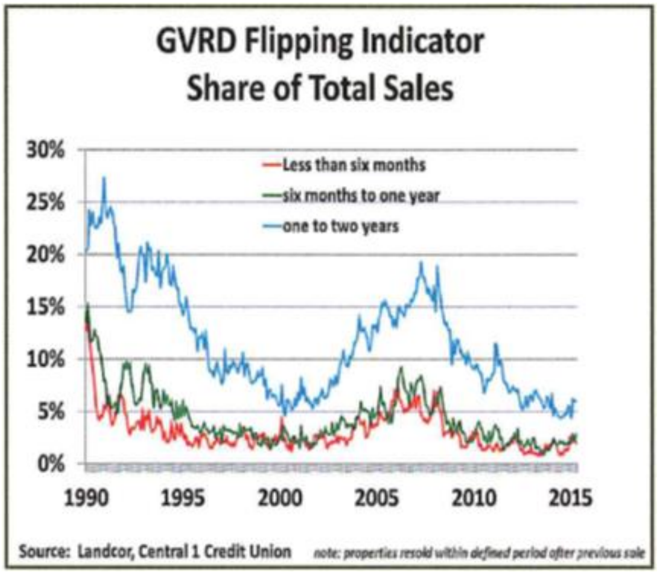
Proposed UDI Position:

There are several concerns with both taxing approaches. First, they do not address the underlying affordability problems in the region. Metro Vancouver is an attractive and safe place to live, so immigration into the region is high with an average of 30,000 to 35,000 people moving here every year leading to increased demand. At the same time, there a supply constraints. Of Metro Vancouver, only 9% is considered open and undeveloped ("*greenfield*" land).

The issue of supply and demand is what is driving most of the affordability issues in Metro Vancouver and the luxury and speculation taxes will not impact them. The Ministry of Finance and the B.C. Real Estate Association have dispelled the myth that foreign buyers are overly impacting the market. Homes sold to foreign investors only make up 3.6% of home sales. Local investors represented 12% of unit sales. Only 2.3% of Metro apartment condominiums were foreign owned in 2014 according to CMHC.

According to the UDI/Urban Analytics State of Market Report, overall housing starts for Q1-2015 were down 7% from the same time last year and are down 18% from the three and half year average. Meanwhile, Metro Vancouver's population change over the past quarter was 7% higher, and up from 8% from the 15 month average. The current ratio of 2.8 new residents per housing start is tied with a 4 year high achieved in 2013. It was 1.25 per unit in 2011.

Wealthy foreign buyers may impact the higher end of the market and skew average prices, but the homes they are purchasing are not the product first-time homebuyers would purchase. According to BCREA, "*Last year, 32 per cent of homes sold in Metro Vancouver were priced below $400,000 and 82 per cent were less than $1 million*." According to the Real Estate Board of Vancouver, most condos in the region range in price between $200,000 and $600,000 and townhomes cost between $300,000 and $800,000. Why is a luxury tax on housing needed when the impact on most homebuyers is minimal? The need for a speculation tax is also questionable given that property "*flipping*" in Greater Vancouver is "…*at the lowest levels since 2000*," according to the Central 1 Credit Union. Please see the chart below. If some foreigners and local investors are speculating, they already are being taxed substantially by the Federal and B.C. governments when they resell their units with the capital gains taxes and the PTT.



We are concerned that the proposal to increase the PTT for luxury homes will increase the cost of housing for everybody. The history of the PTT bears this out. In report to UDI, MNP noted that when the tax was introduced in 1987, the 2% portion was for luxury homes, and "… *was expected to apply to only 5% of homes sold*." The thresholds were never adjusted and now the PTT applies to 95% of residential property sales. Similar issues have occurred with the GST as it is applied to new homes. This type of luxury tax will more than likely be viewed as revenue stream by future governments, increasing the cost of housing for all homebuyers.

In terms of the proposed speculation tax, many who have a change in life circumstances (e.g. divorce, financial problems or job relocation) that require they move, may be caught by the tax. Anyone who is to assemble land as part of the development process would be caught by the tax when they sell units to buyers. Is this deemed speculation? The above issues could be addressed in the regulatory framework of the tax, but this would increase administrative costs for government and add delays for sellers.

If initially the tax is effective in removing part of the speculator market to soften prices, then demand increases as a result. Demand then outstrips supply and prices are higher than ever before. As such, "speculators" are no worse off paying the tax compared to when there was no tax with higher prices.

Applying a tax without knowing what the result will be is dangerous. When CMHC reduced amortization to 25 years and ceased to insure mortgages over $1M the point was to try and slow the market down. All it did was push first time homebuyers out of the market while the rest of the market kept going up.

Conclusion:

Instead of adding costs to the price of housing through additional taxes, UDI believes all governments can improve market housing affordability by:

- Increasing the supply of units through more proactive land use policies;
- Reducing delays in the development approval process, so housing can be delivered to the market more quickly, and holding costs for projects can be reduced; and
- Lowering fees, charges and taxes on housing.