

Hand Delivered

October 3, 2006

Brian Pallister, MP
Chair, Standing Committee on Finance
Sixth Floor, 180 Wellington Street
Wellington Building
House of Commons
Ottawa ON K1A 0A6

Dear Mr. Pallister:

Re: Housing Opportunities in Federal Budget 2007

The British Columbia Real Estate Association (BCREA) represents the 12 real estate boards and nearly 16,500 REALTORS® across BC. BCREA provides an extensive communications network, required licensing and continuing education courses, standard forms and government relations for REALTORS®, and is a member of The Canadian Real Estate Association (CREA).

BCREA is committed to improving the Quality of Life in BC communities by promoting economic vitality, housing opportunities, preserving our environment, protecting property owners and building better communities across the province.

The Standing Committee on Finance has asked Canadians to address the theme *Canada's Place in a Competitive World*. BCREA believes that housing and real estate are central to citizens' quality of life — a key determinant of our nation's productivity and competitiveness.

In his address to the World Urban Forum 3 in June, Prime Minister Stephen Harper noted the importance of housing to Canada's success as a nation. He committed the federal government to helping build safe neighbourhoods and sustainable cities. "Another key to a safe and successful environment is affordable housing," he said. "If our cities are to succeed and prosper, we must find ways to provide housing that meets the needs of people in all income levels."

In the coming weeks, The Canadian Real Estate Association will appear before your committee and present comprehensive recommendations that address the theme established by your committee and the vision outlined by the Prime Minister. BCREA is pleased to take this opportunity to reinforce a selection of the recommendations and their importance to citizens across British Columbia.

Real Estate — A Driving Economic Force in BC

The real estate sector continues to be a pillar of both our national and provincial economies. Where would we be without it — one of our most significant economic generators?

The number of homes sold in this province month-over-month and year-over-year continue to challenge established sales records. Year-to-date dollar volume figures are up more than 12 per cent from last year, though the number of sales is down approximately 5 per cent. This marks the highest year-to-date dollar volume and second-highest year-to-date unit sales totals in the last decade.

The average BC home sold on the MLS® between 2002 and 2004 triggered nearly \$28,000 in additional spending, including legal fees, moving expenses, furniture and appliance purchases and taxes.¹ Using that figure, BC homes sold on the MLS® in 2006 have so far generated more than \$1.7 billion in additional spending. Between 2001 and 2005, sales have also generated an estimated \$9.4 billion in related spending and created 78,000 jobs.

Budget Matters

Honour Commitment to Assist Leaky Condo Owners

BCREA acknowledges the Government of Canada's commitment to work with the Government of British Columbia in pursuit of a fair program of relief for owners of leaky condos. The Prime Minister has specified that the program will include a review of the handling of construction regulations and the role of Canada Mortgage and Housing in the leaky condo situation.²

The Prime Minister and minister responsible for housing have both stated that cases currently before the courts relative to leaky condos do not impede the government's ability to proceed and honour its stated commitment. BCREA believes that the Government of Canada should proceed to honour this commitment without further delay.

BCREA recommends the Government of Canada:

- Honour its commitment and work with the Government of BC in pursuit of a fair program of relief for owners of leaky condos

Provide an Inflationary Adjustment to the Home Buyers' Plan

The Home Buyers' Plan (HBP) enables individuals to borrow up to \$20,000 (\$40,000 per couple) from their Registered Retirement Savings Plans (RRSP) to purchase their first home. More than 1.5 million people have used this program to date since its creation in 1992.

¹ Clayton Research Associates Limited, 2005.

² "Leaky condo advocate calls on PM to honour promise", The Now newspaper, February 13, 2006

Since that time, home prices have escalated dramatically in BC. Unfortunately, the HBP withdrawal limit has not been adjusted to reflect either the increase in prices or the rate of inflation. The lack of inflation adjustment is an obvious oversight in the plan's design.

As a result, the HBP accounts for a shrinking portion of the down payment required to purchase a home in BC. It also forces plan users to finance larger mortgages, causing their debt burden to rise even as interest rates remain low.

The maximum loan available under the HBP has been losing ground as a percentage of rising average resale home prices for more than a decade. CREA reports that, between 1992 and 2005, the national average home price rose 66 per cent. During the same period, the Consumer Price Index climbed 27 per cent. If the maximum loan available under the HBP were adjusted to account for inflation, it would stand at \$25,400.

BCREA recommends the Government of Canada:

- Update the HBP by raising the maximum loan available to \$25,000 and adjust this amount every five years to account for consumer price inflation

Extend the Residential Rehabilitation Assistance Program (RRAP)

Homeownership helps to form the basis for the economic and social well being of families and individuals. Policies and programs that help British Columbians with lower incomes to access homeownership have a wide economic and social benefit, as do measures to help low-income owners finance necessary repairs.

Between 1986 and 1999 RRAP supported the upgrade of 261,000 homeowner and rental units, and 13,400 rooming house and hostel units. In 2005, the program assisted nearly 22,000 units.

Demand for RRAP is expected to grow as the existing housing stock ages. An independent study conducted for CMHC projected an annual increase of more than 6,000 households in core housing need that will require major repairs. The report concluded that "Without question this evidence suggests that continuing efforts will be required by governments to ensure that Canada's existing housing stock occupied by low-income households meets accepted standards of health, safety and functionality".

In recent years, CMHC has increased flexibility and innovation in the program, including:

- Increased maximum assistance levels to better reflect construction costs
- Inclusion of energy-saving renovations and retrofits to improve energy-efficiency
- Cover costs of creating secondary and garden suites to assist people with disabilities

The federal government extended RRAP funding by \$384 million over three years in 2003. In November 2005, the government provided \$128.1 million for a one-year extension to March 2007, noting that the program has produced “incredible results”.

BCREA recommends the Government of Canada:

- Commit to a further three-year extension of RRAP funding to 2010. An increase in annual funding would also be justified by the growing demands for the program.

Assist Reinvestment in Real Property

The capital gains tax and the recovery of capital cost allowance upon the disposal of real property assets can be viewed as “voluntary” taxes. In other words, the taxes can be avoided simply by retaining the asset. This has a negative impact on real property investments as an asset class as it provides a disincentive to sell assets that have increased in value. It’s also a disincentive to maintaining the overall quality of commercial and residential investment properties.

When an owner reinvests the proceeds from the sale of one property into another, no cash has been realized to pay the tax. The taxpayer is retaining an investment in real property but only in a different form. In addition, when an owner reinvests the proceeds from the sale of one property into another, and where the net proceeds of the first property exceed its underappreciated capital cost, tax law treats this as recaptured depreciation that must be included in income. It’s also fully taxable. Again, no real economic gain has been realized as the owner is retaining his or her investment through the purchase of a new property.

A deferral of the capital gains tax and the capital cost allowance recovery would allow an owner the freedom to change asset classes, locations and sizes without penalty and the loss of value that has grown due to inflationary pressures.

A deferral of these taxes would:

- Facilitate changes in investment strategies, such as diversification or consolidation
- Increase the mobility of property owners by allowing assets to be reacquired in a new location, particularly when the owner moves
- Allow owners to grow their investments by exchanging small properties for larger ones
- Encourage the renovation and upkeep of investment properties

The concept of a tax deferral is not new to the *Income Tax Act*. Subsections 13(4) and 44(1) allow a taxpayer to defer capital gains where a “former property” is voluntarily disposed of and a “replacement property” is acquired. Subsection 14(6) provides similar treatment with respect to eligible capital property. However, rental property is specifically excluded from the definition of “former business property”.

BCREA recommends the Government of Canada:

- Amend the *Income Tax Act* to enable a deferral of both the capital gains tax and the capital cost allowance recovery for all real property investments when an investment property is sold and the proceeds are invested in another real property within a specified time period

Assist Housing Affordability with Changes to the GST

The affordability of housing continues to erode in BC. Two changes to regulations governing the Goods and Services Tax can help to address this.

Since its introduction in 1991, the new homes rebate has been available only for renovations that amount to totally rebuilding a house. To qualify a secondary suite for a rebate under the current rules, the title to the suite must be separate from the title to the rest of the building. This measure discourages owners from creating secondary suites, which provide affordable housing options in communities across BC. BCREA encourages the government to change this.

Extending the rebate to include renovations designed to create secondary suites would require the government to establish a new definition for the meaning of “substantial renovation” under the regulations.

Revision of the GST price thresholds, the levels that determine the new housing rebate, should also be amended. The thresholds have not been adjusted since the tax was introduced. Only new homes priced up to \$350,000 qualify for the maximum rebate of \$8,750. The rebate is gradually reduced for homes priced between \$350,000 and \$450,000. Across BC, home prices continue to surge making the thresholds increasingly ineffective. In August 2006, the median indexed price for a detached house in Vancouver was \$653,616. In the Capital Region, the price was \$460,000.

BCREA Recommends the Government of Canada:

- Redefine the terms of the “substantial renovation” under the GST regulations to include renovations for the creation of secondary suites
- Index to inflation the GST housing price thresholds

Assist Aboriginal Housing

In BC and across the country, aboriginal housing is in need of immediate remedial action. It is seriously deficient both on and off reserves. Because of a substantial backlog and a rapidly growing population, housing related problems are growing and require immediate attention.

BCREA believes that the Government of British Columbia may introduce measures to help address the situation as part of its new provincial housing strategy, scheduled for introduction this fall. However, efforts by the province must be supported through measures undertaken by

the Government of Canada to support development of functioning housing markets and education in housing construction and administration in areas where aboriginals live.

In June 2006, CREA presented a paper at World Urban Forum 3 that provided an overview and explanation of current aboriginal housing conditions. It became clear that while aboriginal housing as a sector is in bad shape, models exist within aboriginal communities that can serve to turn it around and make good housing the norm rather than the exception.

BCREA Recommends the Government of Canada:

- Commit increased funding to assist aboriginal housing both on and off reserves
- Develop a plan to address the problem of mold in aboriginal housing
- Support a results oriented conference to help improve First Nations housing and to demonstrate and expand the private sector's role in assisting this effort
- Initiate consultations leading to the development and introduction of legislation to provide a modern alternative to the *Indian Act* for land ownership and management

Reinstate Funding to Address Beetle Infestation

BCREA is disappointed with the decision to cut \$11.7 million from the Government of Canada's financial commitment to battle the massive pine beetle infestation. The timing of the decision could not be worse as the infestation continues to threaten communities and property owners throughout the province. Support for remediation efforts should be increased as soon as possible, considering the threat posed to other species of trees and property owners in other provinces.

BCREA Recommends the Government of Canada:

- Honour its commitment to assist remediation of the infestation through reinstatement of the \$11.7 million previously budgeted to

Thank you for this opportunity to bring our budget concerns forward. For a more detailed discussion of our recommendations, please contact Stephen Olmstead, BCREA Manager of Government Relations, by telephone at 604.742.2793 or email, solmstead@bcrea.bc.ca.

Yours sincerely,



Kelly Lerigny
President