



BRITISH COLUMBIA  
REAL ESTATE  
ASSOCIATION



October 16, 2008

Select Standing Committee on Finance and Government Services  
Room 224  
Parliament Buildings  
Victoria, BC V8V 1X4

Committee members:

In this submission, the British Columbia Real Estate Association (BCREA) and the Canadian Home Builders' Association of British Columbia (CHBA BC) recommend the BC Government build on past initiatives that will make housing more affordable, reduce the province's carbon footprint and help British Columbians adapt to the realities of climate change and its impact on our province.

BCREA and CHBA BC ask the Select Standing Committee on Finance and Government Services to review these suggestions and recommend them to the Finance Minister for inclusion in his Budget for 2009. The first key action the BC Government can take is to restructure the Property Transfer Tax as it stands as a major barrier to affordable housing. The second key action government can take is to make better use of the housing sector to help residents make greener building choices that will reduce thousands of tonnes of greenhouse gases and waste.

## Recommendations

That the government:

1. Restructure the Property Transfer Tax to reflect more accurately current housing market conditions in BC by increasing the one per cent tax threshold to \$400,000, with two per cent tax thereafter. This first step to a fairer Property Transfer Tax will enable greater affordability and accessibility to housing.
2. Improve the attainability of green housing throughout the province through a program that provides a Property Transfer Tax rebate to buyers of new homes that meet a Built Green™ standard for greenhouse gas emissions and less waste.

*"We believe the provincial government has an opportunity to build on past actions regarding affordable housing and greenhouse gas reductions in Budget 2009" – Scott Veitch, President, British Columbia Real Estate Association and Creston REALTOR®*

BCREA and CHBA BC congratulate the government on recent budget initiatives that have helped the provincial economy, improved housing attainability and helped to reduce the province's carbon footprint. Specifically, measures in Balanced Budget 2007, such as the Housing Endowment Fund, First-Time Home Buyers' Program enhancements, changes to the Home Owner Grant aimed at seniors, lowered age threshold for property tax deferral, and personal income tax cuts were excellent initiatives that helped to make real estate more affordable for British Columbians.

The greenhouse gas reduction initiatives in Balanced Budget 2008 were also a significant and commendable step toward reducing our carbon impact. We were especially pleased with funding commitments for a green *Building Code* and for help to make energy-efficient choices for buildings, including the recent announcement of funding to help the CHBA BC promote the Built Green™ BC program. The new income tax cuts will also help British Columbians afford housing.

Introducing measures in Budget 2009 to take steps to mitigate growing real estate market uncertainty and fuel stronger economic activity in the sector will enhance opportunities for British Columbians. Such steps will provide families with increased opportunities to afford housing in their communities, which seems a sensible next step for government, as do additional measures to target the housing sector for greenhouse gas reductions. We believe the Select Standing Committee on Finance and Government Services should seriously consider our public policy proposals that will help achieve these goals.

## Property Transfer Tax Discussion

### Brief History of the Property Transfer Tax

In 1987, the provincial government introduced the Property Transfer Tax of one per cent on homes up to \$200,000 and two per cent thereafter. Then-Finance Minister Mel Couvelier said at the time that the Property Transfer Tax was a wealth tax.<sup>1</sup> Housing prices substantiated his argument; in 1987, the average MLS® home price in British Columbia was \$101,916. Property Transfer Tax revenue accrued to government in the 1987/88 fiscal year was \$140 million, or 2.3 per cent of total government tax revenue.

Since then, the relative attainability of housing in BC has undergone epic change. In 2008, the Property Transfer Tax implications are completely different than they were intended. When the tax was first introduced, the two per cent portion was expected to be levied on only five per cent of homes sold; in the current market, the two per cent portion is levied on about 80 per cent of homes sold. The two per cent Property Transfer Tax levy is no longer only a wealth tax; it is now a tax on medium- and low-income households, as well.

The fourth quarter 2007 average home price in British Columbia was \$452,198. In 2007, only 17 per cent of homes were sold for less than \$200,000 and qualified for the lower one per cent tax threshold. Because of this strong growth in housing prices, the government has been receiving a tax revenue

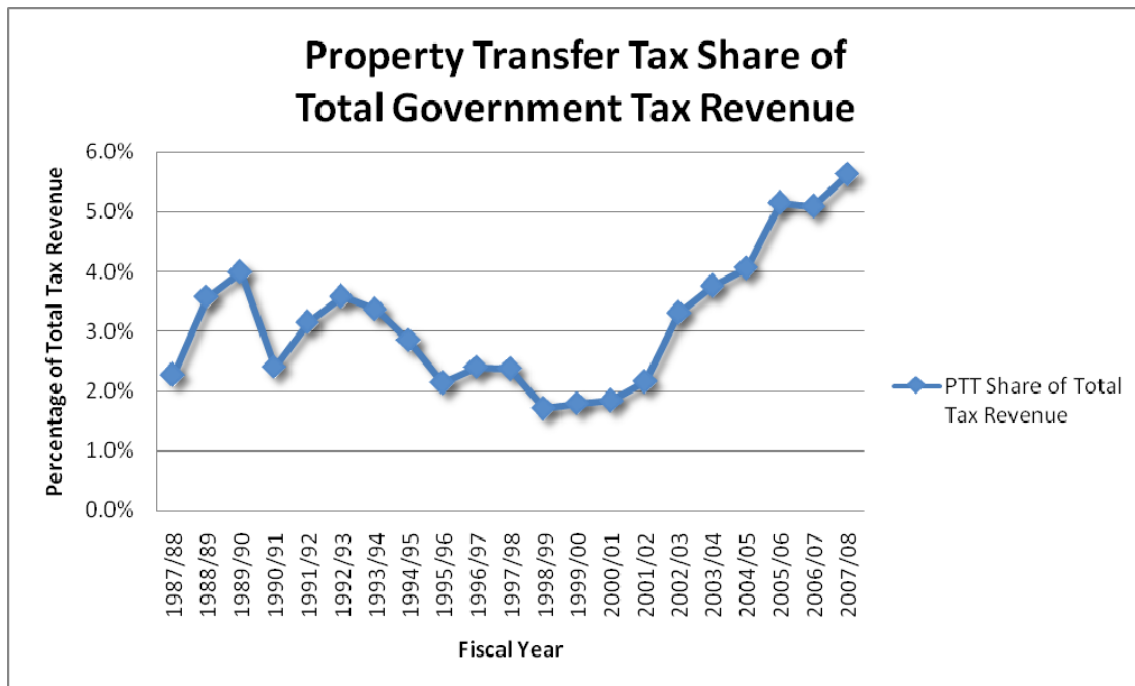
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<sup>1</sup> Hansard, May 21, 2007, [www.leg.bc.ca/hansard/34th1st/34p\\_01s\\_870521p.htm#01281](http://www.leg.bc.ca/hansard/34th1st/34p_01s_870521p.htm#01281), accessed September 15, 2008.

windfall from British Columbians who have chosen to move or had to move for employment or other reasons.

Property Transfer Tax revenue accrued to government in the 2007/08 fiscal year was nearly \$1.1 billion, more than four times higher than in 2001, and accounted for 5.6 per cent of total government tax revenue. The proportion of that revenue from lower-cost housing impacts affordability for lower-income British Columbians. The following graph demonstrates the significant growth of Property Transfer Tax revenues as a percentage of total government tax revenues over the past few years of rapid housing price increases.

*“British Columbia homeowners shoulder a land transfer tax burden that is out of step with homeowners in other provinces” – Moss Moloney, Chair, British Columbia Real Estate Association Government Relations Committee and Surrey REALTOR®*



British Columbia ranks worst among all provinces in terms of burden of land transfer taxes on homeowners. In fact, the BC Government places more than double the burden on its homeowners as the second-worst jurisdictions in Canada. This discourages skilled labour from moving to British Columbia from other provinces and works in contrast to principles in the Trade, Investment and Labour Mobility Agreement that are intended to remove barriers inhibiting interprovincial labour mobility.

LAND TRANSFER TAX BURDENS IN CANADA					
Province	Q4 Average MLS® Price	Transfer Tax Paid to Government	Average Tax Rate	Estimated Household Income	Transfer Tax to Income Ratio
<i>British Columbia</i>	\$452,198	\$7,044	1.6%	\$69,250	10.2%
Alberta	\$354,332	\$0	0.0%	\$90,100	0.0%
Saskatchewan	\$194,267	\$0	0.0%	\$66,850	0.0%
Manitoba	\$172,364	\$1,235	0.7%	\$64,450	1.9%
Ontario	\$313,757	\$3,181	1.0%	\$79,800	4.0%
Quebec	\$216,806	\$1,918	0.9%	\$60,100	3.2%
New Brunswick	\$132,884	\$332	0.2%	\$57,600	0.6%
Nova Scotia	\$173,617	\$2,604	1.5%	\$61,900	4.2%
Prince Edward Island	\$137,650	\$1,367	1.0%	\$58,300	2.4%
Newfoundland & Labrador	\$152,160	\$0	0.0%	\$61,500	0.0%
<b>Canadian Averages</b>	<b>\$312,411<sup>2</sup></b>	<b>\$2,187<sup>3</sup></b>	<b>0.7%<sup>4</sup></b>	<b>\$72,100<sup>5</sup></b>	<b>3.0%<sup>6</sup></b>

As shown in the above table, British Columbians pay 222 per cent more in land transfer taxes per transaction than the average Canadian. The BC Government levies a Property Transfer Tax rate that is 129 per cent higher than the average for Canadian provinces. Higher property prices are not solely to blame for this scenario; prices in British Columbia are 45 per cent higher, so the inequitable structure of the provincial government's Property Transfer Tax adds an additional burden of up to 177 per cent.

If British Columbians paid the average Canadian price for a home (\$312,411), they would pay only \$4,248 in Property Transfer Tax. The \$2,796 difference between this illustrative average home and the actual tax burden of \$7,044 reinforces the additional burden the provincial government places upon British Columbians, due to a comparatively higher than average home price.

This difference between what the provincial government would levy in Property Transfer Tax on a typically priced Canadian home and what British Columbia homebuyers face is further magnified when examining the impact of BC's high prices has upon the average Canadian price. Excluding the BC average property price of \$452,198 from the Canadian average price brings that figure down to \$278,305. The difference between BC's average property price and the Canadian average price excluding BC is \$173,893. This is a dramatic difference and illustrates the additional impact the Property Transfer Tax has on British Columbians. The same tax applied to the Canadian average price excluding BC would yield \$3,566, approximately half what the provincial government makes British Columbians actually pay. The situation is compounded as BC's average tax rate is more than double the average Canadian tax rate. This also reinforces that the Property Transfer Tax has become a regressive tax upon the average

<sup>2</sup> Canadian Real Estate Association MLS® statistics showing average sale price weighted for volume of sales in each province

<sup>3</sup> Average of land transfer tax levies in the table.

<sup>4</sup> An approximate national rate, based on the mean of land transfer tax levies from all Canadian provinces including provinces where no land transfer tax is levied.

<sup>5</sup> Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics. 75C002-HH-E, 2005 mean household income inflated to 2007 Q4 levels using average weekly wage growth.

<sup>6</sup> Figure calculated using estimated national transfer tax levy and household income (see footnotes 3 and 5 for further details).

homebuyer in British Columbia in contrast to other jurisdictions, and in absolute terms within the province.

This challenge compounds when considering the average household income levels in British Columbia are on par with the rest of Canada. As a result, the proportion of the Property Transfer Tax as a percentage of total household income at the time of purchase is 10.2 per cent—over two and a half times more tax burden than Ontarians, over three times more tax burden than Quebeckers, while Albertans have no similar tax burden.

The Property Transfer Tax is often considered a one-time tax when residents purchase homes. However, it is important to remember that the tax is paid each and every time a family moves, regardless of reason or circumstances. Imagine the impact, and disincentive, to a homeowner who is required to move frequently: the family must pay more than 10 per cent of their household income to government every time the family moves to find a new job or better opportunity elsewhere.

This is exactly the sort of disincentive British Columbia must address to attract skilled labour, new businesses, industries and entrepreneurs to the province. BC must do more to fill growing shortages and to help communities adapt to the realities of climate change and the new economy. This also reflects a tax burden that struggling, resource-dependent communities and working families shoulder disproportionately—groups that need the most support from government.

*“The Property Transfer Tax detracts from provincial affordable housing initiatives that previous budgets have put in place” – Robert Laing, CEO, British Columbia Real Estate Association*

## Property Transfer Tax Recommendation

The impact of the Property Transfer Tax on British Columbians—namely, being the least competitive jurisdiction in Canada for land transfer taxes—appears to be at odds with the provincial government’s competitive taxation principles. For example, the provincial government has provided British Columbians the lowest personal income tax in all of Canada for individuals earning up to \$111,000, and the lowest combined corporate tax rate among the world’s major industrialized economies. It seems consistent that the provincial government would consider changes to the Property Transfer Tax as part of a broader tax and economic stimulus package that would make home ownership more attainable for working families, especially in resource-dependent communities, in a manner that is more targeted than income tax reductions.

The impacts of the tax contradict Balanced Budget 2007’s goal to take a major step toward ensuring every British Columbian has access to a safe, appropriate and affordable place to call home. While the First-Time Home Buyers’ Program enhancements to exempt first-time buyers across BC from paying the Property Transfer Tax on homes valued up to \$425,000 save first-time buyers up to \$6,500, this is a one-time benefit for homeowners who will move several more times in their lives.

In some communities, particularly resource-dependent Interior and Northern communities, the Property Transfer Tax affects residents' ability to adapt to climate change and its impact on the economy, including the mountain pine beetle devastation. The Property Transfer Tax may also be dampening industry's ability to respond successfully to labour shortages by affecting affordability and discouraging migration for economic purposes with regards to communities in transition. Adopting the increased threshold for the province's two per cent Property Transfer Tax levy will be of particular benefit to Interior and Northern homeowners, where median housing prices are below the fourth quarter 2007 provincial average of \$452,198. In fact, in areas of British Columbia outside Metro Vancouver and the Capital region, 83 per cent of homes are sold below \$400,000.

*"There is a growing chorus from stakeholders to make the Property Transfer Tax fair and reflective of the current market—not the 1988 market" – John Tillie, Vice President, British Columbia Real Estate Association and Duncan REALTOR®*

Other stakeholder groups, such as the Vancouver Board of Trade and the BC Chamber of Commerce, agree with BCREA and CHBA BC, and recognize that the Property Transfer Tax is now out of sync with its originally intended purpose. The collective voice for change and government action is growing.

BCREA and CHBA BC strongly recommend the provincial government build on past initiatives to increase housing affordability and accessibility by increasing the threshold for the two per cent Property Transfer Tax levy from \$200,000 to \$400,000. The government revenue impact is estimated at \$165 million annually. Our economic analysis suggests the proposed threshold will result in the provincial government levying one per cent Property Transfer Tax on 63 per cent of homes in BC based on 2007 sales data rather than 17 per cent as is currently the case.

The provincial government's Property Transfer Tax is a heavy burden on low- and middle-income households. It no longer meets the purpose for which government created it. It is a barrier to affordable and accessible housing and limits economic growth.

## **Green Building Recommendation**

The BC Government introduced several measures in Balanced Budget 2008 to reduce the province's greenhouse gas emissions. These measures were a significant first step toward achieving British Columbia's goal of reducing greenhouse gas emissions by 33 per cent by 2020.

BCREA and CHBA BC were pleased that, as part of these efforts, the provincial government allotted funding to green the *Building Code*, provide provincial sales tax exemptions for greener home renovation components and establish the new LiveSmartBC program, which helps homeowners and businesses make greener choices for their properties.

Most recently, we appreciate the government providing \$150,000 to CHBA BC to promote energy efficiency and sustainability in residential construction through the Built Green™ BC program. The funding is part of the Housing Endowment Fund, established by the Province of BC in 2007 with a \$250-million capital endowment, and helps encourage new ideas and support innovative housing solutions

not served through existing housing programs. It clearly demonstrates the government's commitment to improving the natural environment for British Columbians.

*"The provincial government's Green Building Code and other greenhouse gas reduction measures are wonderful initiatives that will benefit our children and grandchildren" – Ralph Belisle, Immediate Past President, Canadian Home Builders' Association of British Columbia and Vancouver renovator*

We believe the provincial government has an opportunity to continue its efforts to reduce British Columbia's carbon footprint. We suggest the province can provide a Property Transfer Tax rebate to encourage green choices and enable British Columbians to adapt to the realities of climate change and its impact on our province. This incentive is consistent with the revenue neutrality principle of the carbon tax, as it would return money to British Columbians in a way that is directly targeted at reducing greenhouse gas emissions.

### **Built Green™ Program Overview**

Built Green™ is an international standard that qualifies new homes on criteria of energy efficiency, indoor air quality, resource use management and overall environmental impact. Each Built Green™ BC Gold home has the potential to eliminate 2.5 tonnes of greenhouse gas emissions annually over the life of the building.

Built Green™ BC promotes construction of buildings that are healthier for the occupants and the environment. Sustainable or "green" building practices can reduce the tremendous impact a building has on people and nature. Sustainable building practices go beyond energy and water conservation, resource-efficient building materials and superior indoor environmental quality and result in the following benefits:

- Better energy efficiency means comfort and long-term savings for the homeowner.
- Healthier indoor air means comfort, better health and peace of mind for the family.
- Durable, reduced-maintenance materials mean a longer life for the home and long-term savings.
- Preserving natural resources means leaving more for future generations to enjoy.

Informing and educating the home-buying public on the value of a home that meets Built Green™ BC standards are primary undertakings of the program. An informed buyer recognizes the value of greater energy efficiency, healthier indoor air, reduced water usage and improved comfort.

*"Built Green™ BC is about healthier buildings for homeowners and for the environment" – MJ Whitmarsh, CEO, Canadian Home Builders' Association of British Columbia*

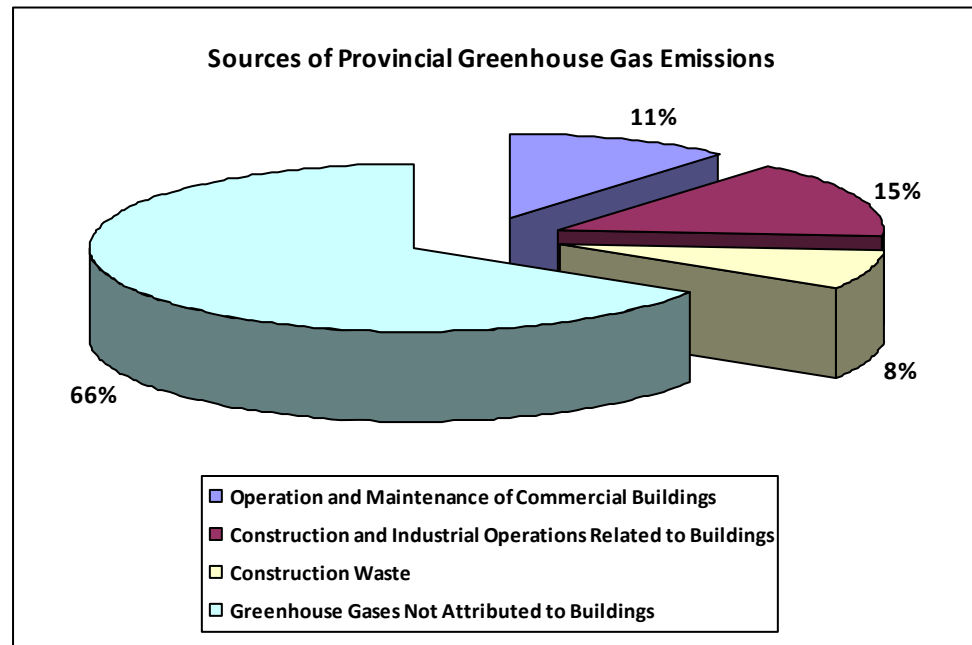
A Built Green™ BC home certification offers participating builders an excellent way to distinguish themselves in the marketplace. Market research shows consumers take environmental concerns and long-term energy costs into consideration when making purchasing decisions. Builders can demonstrate their environmental leadership by participating in Built Green™ BC.

In 2007, 771 Built Green™ BC homes were completed across BC. In 2008, approximately 1,500 Built Green™ BC Gold level homes will be introduced, representing about 4.5 per cent of forecasted housing starts. This could result in GHG reduction of 3,750 tonnes, equivalent to taking 165 cars off the road.

## Greenhouse Gas Impacts of Homes and Buildings in British Columbia

About 34 per cent of British Columbia's greenhouse gas emissions result from the operation and maintenance of residential and commercial buildings.

About two-thirds of emissions attributed to homes and buildings result from construction, which emphasizes the importance of initiatives such as Built Green™ BC. Over time, the capital stock turnover of existing homes and buildings will help to address the emissions associated with the operation and maintenance of properties.



BCREA and CHBA BC are confident the BC Government can significantly reduce greenhouse gas emissions from new and existing homes. However, a green home typically costs four to six per cent more than a traditionally built residence, and renovations to green standards are a significant financial burden.

*"We want to partner with the province to use Built Green™ BC to help reduce our carbon footprint and reduce thousands of tonnes of greenhouse gases" – Chris Erb, President, Canadian Home Builders' Association of British Columbia and Nanaimo home builder*

We believe a Property Transfer Tax rebate incentive to buy a home that meets or exceeds Built Green™ BC standards could help the government meet its greenhouse gas reduction targets and improve affordability and attainability for homebuyers. This initiative, coupled with changes we recommend to the structure of the Property Transfer Tax, will help British Columbians positively adapt to climate change and help set the course for the new, low-carbon economy.

This program would be a cost-effective investment by the government to encourage homeowners to reduce their ecological footprint and deliver valuable data that would assist further reductions of greenhouse gas emissions through commercial properties. It would also support the principle of revenue

neutrality associated with the new carbon tax, allowing the provincial government to link directly the revenue returned to consumers making housing choices that reduce greenhouse gas emissions.

The BC Government could reinforce public participation in the pilot and other incentive programs by consolidating information about incentives and simplifying qualification requirements.

Built Green™ BC Levels		
Built Green™ BC Level & Point Ratings <sup>7</sup>	EnerGuide Rating	PTT Rebate
Gold (85 Points)	77	\$5,000 or maximum PTT paid
Platinum (120 Points)	82	\$7,000 or maximum PTT paid

PTT Rebate Cost		
Description	2008	2009
New Homes Built in BC	33,500	32,900
New Built Green™ BC	1,500	2,000
Rebate	If 1,500 qualified Gold	If 2,000 qualified Gold
PTT Rebate Cost	\$7.5 million (1,500x\$5,000)	\$10 million (2,000x\$5,000)

Reducing the costs to buy and renovate all homes to meet a green standard is critical to achieve the government's targeted reduction in GHG emissions. This pilot project would be a significant step for the government to take in meeting this challenge.

## Conclusion

BCREA and CHBA BC are grateful for the opportunity to speak to the government directly about how we can assist in making British Columbia an economic and environmental leader. We believe the provincial government can make dramatic improvements to housing attainability and the environmental sensitivity of our homes with simple adjustments to the government's current tax structure. We believe some initial steps toward a revised Property Transfer Tax structure to reflect dramatic housing market changes, paired with a reasonable incentive program for homeowners to make environmentally sensitive choices, will pay large dividends to the province, immediately and for the long term.

Further, the proposed changes would ensure citizens continue to choose smarter housing strategies that will continue to contribute to our unparalleled quality of life in BC and help set the course for the new, low-carbon economy.

Representatives of BCREA and CHBA BC would be pleased to discuss these issues further, as well as provide research or other support to help enact these recommendations.

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<sup>7</sup> Provisions to green the *BC Building Code*, which took effect on September 5, 2008, mandate that all homes be built to a minimum standard of EnerGuide 77.

## Overview

### About the British Columbia Real Estate Association

BCREA represents 12 member real estate boards and their approximately 18,000 REALTORS® on all provincial issues, providing an extensive communications network, economic research and analysis, government relations, required post-licensing courses and continuing education.

#### BCREA's Quality of Life Focus

Quality of Life is an approach BCREA has adopted to demonstrate the commitment of the real estate profession to improve Quality of Life throughout the province. REALTORS® have always been active in their communities, and the Quality of Life approach brings the principle to the forefront of all BCREA work.

BCREA summarizes its approach in five principles:

- Ensuring economic vitality
- Preserving the environment
- Protecting property owners
- Building better communities
- Providing housing opportunities

Quality of Life shifts the BCREA focus from only real estate concerns to broader, community interests. It also gives BCREA the opportunity to work with other organizations on specific issues to achieve positive results.

### About the Canadian Home Builders' Association of British Columbia

The Canadian Home Builders' Association of BC is the voice of the residential construction industry in BC.

CHBA BC, a viable industry-driven organization, is built on a vision of strong and positive roles for the housing industry, and is committed to supporting the professionalism of our members and providing affordability, quality and choice for consumers. CHBA BC's voluntary membership comprises builders, developers, renovators, suppliers and other professionals who are dedicated to industry excellence.

Key priorities for CHBA BC include lobbying government for regulatory and non-regulatory changes, building on the success of the Built Green™ BC program, providing quality education and training courses for our members, demonstrating excellence by strengthening the Georgie Awards®, and increasing the profile of CHBA BC. Together, CHBA BC's ten local associations build a strong and positive voice for the residential construction industry in BC.

### The Economic Impact of Real Estate, REALTORS® and New Home Construction

REALTORS® help to generate significant economic activity and opportunity in British Columbia. Every 100 residential transactions in 2007 generated nearly \$4.2 million in economic output and \$2 million in

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Gross Domestic Product (GDP). More than 102,000 homes were sold through the Multiple Listing Service® (MLS®) in 2007, totalling more than \$4.3 billion in economic output and \$2 billion in GDP. Home sales generate employment. Every 100 MLS® residential sales in 2007 generated 28 full-time equivalent jobs; this means MLS® residential sales activity last year generated more than 28,000 jobs. One hundred typical MLS® residential transactions added nearly \$1.3 million in household income. Total MLS® residential sales in 2007 contributed more than \$1.3 billion in BC household income.

New home construction is also a significant economic driver in BC. The new housing and renovation sector is the second largest industry in BC. In 2007, there were 39,195 housing starts, creating 43,594 jobs. Every house built creates 2.8 person years of employment. The residential construction industry contributed \$3.5 billion in GDP in BC in 2007. Residential construction alone accounts for 2.3 per cent of the provincial GDP. In 2007, residential construction paid out \$19 million in wages. The average weekly wage in BC's construction sector is \$872.78. This compares to a \$747.84 average in all industries. The average construction wage is 16.6 per cent higher than the overall average industry wage for full time employment.

Sincerely,



Robert Laing  
CEO, British Columbia Real Estate Association



M.J. Whitemarsh  
CEO, Canadian Home Builders' Association of British Columbia