

MARKET HOUSING AFFORDABILITY

British Columbians and the provincial and federal governments are concerned about the issue of housing affordability.

The British Columbia Real Estate Association (BCREA), the 11 real estate boards and more than 23,000 REALTORS® they represent are also committed to improving market housing affordability.

However, it is time to take a closer look at the impact of both the Speculation and Vacancy Tax and the B-20 stress test to make clarifications and corrections that will support long-term affordability and a secure housing market.

SPECULATION AND VACANCY TAX

The Speculation and Vacancy Tax was implemented to help make housing more affordable for BC residents by targeting foreign and domestic speculators who own residences in BC but do not pay taxes here. In addition, the tax is intended to incentivize those with vacant homes to put their units into the rental market.

In reality, the tax will mostly penalize British Columbian residents.

RECOMMENDATIONS

- 1. The BC Government should set an end date on the Speculation and Vacancy Tax, based on predefined outcomes.** What is the market threshold the government is seeking to reach? Actual market specifics around the term “affordability” have never been stated publicly and we would like clarification. Active benchmarks would provide increased accountability and serve as clearer, stronger guidelines in setting provincial policy.
- 2. The province should urge the federal government to review and reconsider the current mortgage underwriting “stress test,” as well as reinstate 30-year amortizations for federally insured mortgages.** This federal initiative has significantly stalled BC home sales by locking a sizeable number of potential buyers out of the market based on outdated guidelines that ignore mortgage rate changes since implementation.

CONTACT

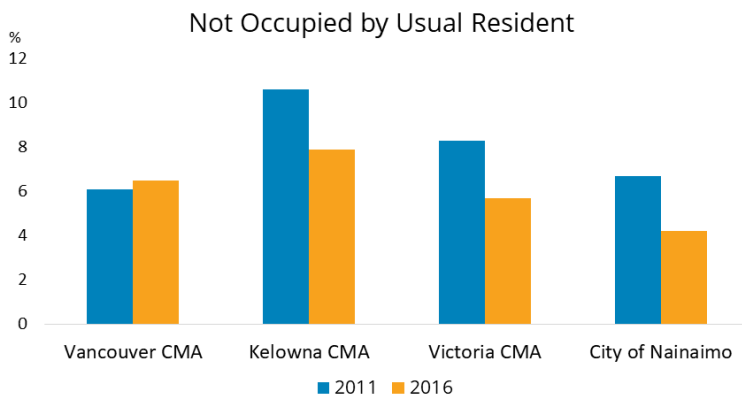
If you would like to discuss these recommendations further, please contact **BCREA Vice President of Government Relations and Stakeholder Engagement Trevor Hargreaves** at thargreaves@bcrea.bc.ca or **236.333.4572**.

VACANT HOMES ARE JUST A SMALL FRACTION OF OVERALL HOUSING SUPPLY

In 2018 just 1.4 per cent of homes in the City of Vancouver paid the empty homes tax. This statistic provides a sense of vacant homes in the rest of BC. In most areas where the Speculation and Vacancy Tax applies, the share of housing stock reported as “not occupied” by the usual resident, meaning the unit is empty or being occupied by a temporary foreign resident, actually declined between 2011 and 2016. This data demonstrates that the tax is inconveniencing all homeowners in BC to reach a statistically small demographic of foreign ownership.

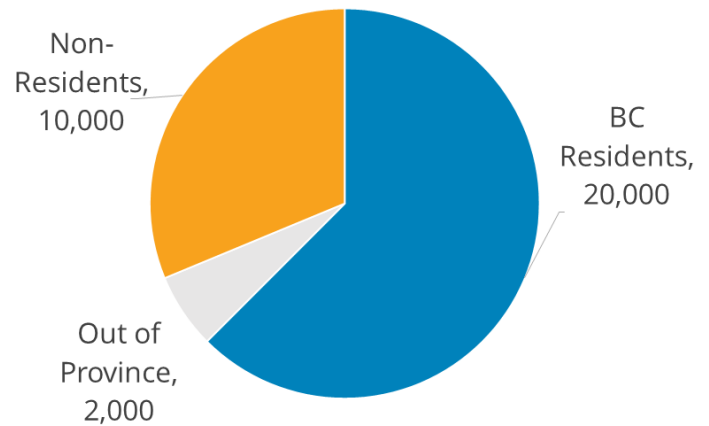
The data does not support the current narrative. This is not a large enough demographic to affect house prices in any meaningful manner.

Facts About Vacant Homes



Source: 2016 Census

Who Will Pay the Tax?



Source: Hansard May 16, 2018

The small share of vacant units in BC implies that low rental vacancy rates are due to a shortage of supply, rather than foreign investors leaving homes vacant. In fact, according to the Minister of Finance, the overwhelming majority of those estimated to pay the Speculation and Vacancy Tax are BC residents who own vacation homes or other secondary properties. Is this the intended demographic for this tax?

DISPROPORTIONAL REGIONAL IMPACT

While the impact of the Speculation and Vacancy Tax may be small, it does have the potential to adversely impact specific markets; for example, in Kelowna where demand from out-of-province buyers has historically been a very important driver of local market conditions.

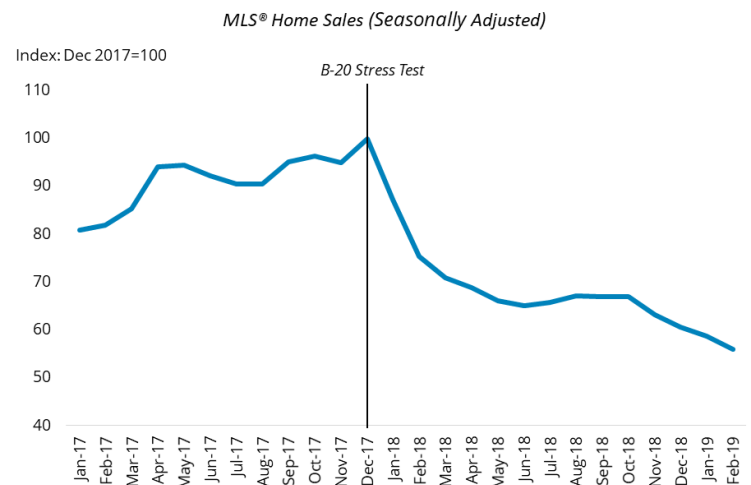
Home purchases by Canadians looking to retire or invest in recreational property have historically amounted to between 15 and 20 per cent of total sales through the Okanagan Mainline Real Estate Board. By taxing this source of housing demand, the Speculation and Vacancy Tax threatens to upset long-standing regional market dynamics and potentially hamper future development.

STRESS TEST SKEWS PERCEPTIONS OF SPECULATION TAX

Because the federal government's B-20 stress test and the provincial Speculation and Vacancy Tax were introduced at nearly the same time, perceptions of the impact of the Speculation and Vacancy Tax are often skewed. In reality, the Speculation and Vacancy Tax is burdening many British Columbians but not truly improving market housing affordability.

However, the federally instituted B-20 stress test has reduced the buying power of families by as much as 20 per cent. It forces even the most creditworthy borrowers with large down payments to qualify at an interest rate that is two percentage points above the rate they negotiate with their bank. The B-20 stress test is making it harder for British Columbians to realize their dream of home ownership. Home sales have declined more than 45 per cent in Vancouver since the stress test was implemented.

Impact of B-20 Stress Test in BC



Source: BCREA Economics

NEGATIVE CONSEQUENCES FOR THE BC ECONOMY

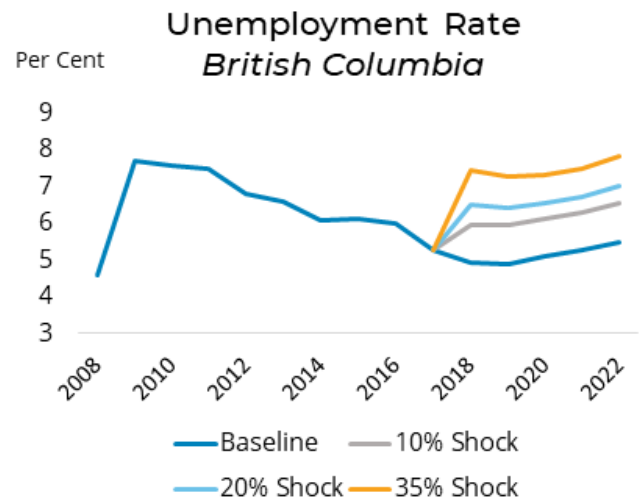
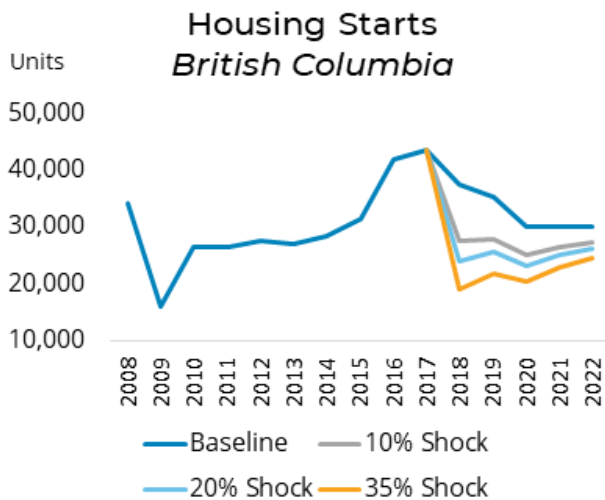
The B-20 stress test is also causing a knock-on effect to the overall economy, as families who are worried about declining home equity cut back on retail spending, home renovations and other products and services.

When families are locked out of the housing market by the strictest of mortgage rules, even the BC government treasury is affected. The sharp decline in home sales caused by the B-20 stress test has cost the BC Government \$400 million in lost Property Transfer Tax revenues alone, money that could have been used for health care, education and affordable housing.

Urging the federal government to review the impacts of the B-20 stress test and consider a return to 30-year amortizations for federally insured mortgages can help ensure BC families are not left further behind.

Although the government sees falling home prices as a positive benefit of combined municipal, provincial and federal policy measures, the consequences of those price declines are often ignored. If consumers and investors lose confidence in the housing market and a minor adjustment in prices becomes more severe, the damage to the economy could be steep and long lasting.

Rising unemployment and a pullback in new home construction are just two of the many potential consequences of large home price shocks for the BC economy. While we do not judge the province’s policy measures to be enough to seriously impact home prices, the rhetoric around falling home prices along with the more significant hit to purchasing power from the mortgage stress test raise the risk of adverse consequences.



Source: Statistics Canada, CMHC, BCREA Economics

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