CANADIAN HOME BUILDERS' ASSOCIATION BRITISH COLUMBIA

Leading Advocate of the Residential Construction Industry in BC

October 10, 2018

Select Standing Committee on Finance and Government Services
Room 224, Parliament Buildings, Victoria, B.C.
V8V 1X4
Submitted by email at financecommittee@leg.bc.ca

Dear Committee members:

The Canadian Home Builders' Association of British Columbia (CHBA BC) is pleased to provide this pre-budget submission for 2019.

About Canadian Home Builders' Association of BC (CHBA BC)

CHBA BC represents over 2,000 members in the residential construction industry who work as home builders, renovators, tradespeople, service professionals, and others. CHBA BC members are small and medium-sized businesses creating jobs and economic benefits in all areas of the province.

Overall, the residential construction industry represents over 200,000 on-site and off-site jobs, $11.9 billion in wages, and $25 billion in investment value.

Market Housing Affordability - It Matters

There is no doubt that housing is a critical issue in British Columbia. It affects all residents, in every corner of the province. However, new policies must address and benefit all aspects of the housing system, from homelessness to market ownership. For example, CHBA research indicates that approximately 80% of all rental units that become available each year in Canada come from people becoming homeowners. Not addressing market housing will create additional pressures on rental stock to meet housing demand.

At present, approximately 95% of residents live in market-provided homes, whether owned or rented. While social housing investments are encouraged, and the provincial government should be commended for its investments in social housing, there are other actions the provincial government can take that would provide relief for market housing buyers or renters as well. This means that new social housing units could go to those in most urgent need.

We were pleased with Minister Robinson's announcement this year at UBCM, that the government will be taking on a review of the development approvals process. CHBA members across the province will be eager to contribute to this review and share their expertise. This sort of review is essential to determine the means to expedite development and building permits in order to help alleviate the chronic supply shortage that exasperates the affordability issue. We understand that increasing housing supply is not the solution to the affordability issue, but it is a prerequisite.

However, there is no "one-size-fits-all" problem or solution that is consistent across B.C. For example, some municipalities take weeks, some take months, and some take years to process permits. In the context of Budget 2019, there are other options for the provincial government to support and encourage market housing in B.C.

With this in mind, please consider the following Budget 2019 recommendations.

1. **Tax credit incentives for proper material disposal**

A recurring problem across British Columbia is dumping of construction materials. Based on a survey conducted by the Recycling Council of British Columbia (page 3) there are two main factors that contribute to illegal dumping: cost or inconvenience of proper disposal (especially when facilities are located on the outskirts of cities) and lack of education.

Proper contractors take care to properly dispose of materials and maintain safe workplaces. However, some landfills require that the resident drop off the materials, or where homeowners hire underground economy or unscrupulous contractors. It is clear that penalties do not dissuade these activities. In the same study, there are also millions of dollars spent by cities to deal with illegal dumping.

Recommendation

- Create a tax credit incentive tied to proper disposal of construction materials.

This approach targets both issues identified by the RCBC. First, it mitigates the cost of proper disposal. There is no doubt there is a cost involved to doing things the right way, and affordability is a key concern for British Columbians everywhere.

It also creates an education opportunity to inform homeowners about proper disposal and their requirements. In order to receive the incentive, proper paperwork from the disposal site should be required and a receipt of the work performed. The paperwork also encourages homeowners to work with professional contractors that will provide receipts - a key aspect to dissuade underground economy activity.

Not all renovations or construction materials are cosmetic either. For example, this incentive could also benefit landlords or homeowners making needed upgrades or emergency repairs.

By introducing an incentive, it is hopeful that many would benefit. Municipalities may be able to decrease their costs tied to illegal dumping, and potentially hazardous materials may be properly disposed of rather than left in communities.

2. **Introduce a new retrofit tax credit for energy efficiency**

The new, recently announced EfficiencyBC program will allow homeowners to access funding for renovation projects. All partners involved should be commended for this voluntary initiative.

The provincial government can further incent energy-efficiency in existing housing - which uses double the energy of homes built since 1985 - with a renovation tax credit for energy efficiency. The policy structure for a tax credit is already in place as British Columbians already deduct the costs of renovating for seniors or individuals with disabilities. Adding energy efficiency to the existing policy is a logical next step, and may help to cover additional limited costs from retrofits not included within the grant program.

Research indicates that every dollar invested in an energy retrofit yields four to seven times more energy savings than a dollar spent upgrading a new home. This benefit could be for both market and social housing units, which are equally in need of energy-efficiency repairs, for the long-term benefit of owners and tenants.

A renovation tax credit is the best expansion model to this issue because it is a voluntary program, and also fights the underground economy in the renovation sector. Homeowners and housing operators will have to work with a contractor that will provide receipts to receive the tax benefits. It also creates consistency for homeowners when looking at renovation tax incentives.

Recommendation

- Introduce an additional renovation tax credit for energy-efficiency upgrades, using the existing renovation tax credit system in B.C.

3. Provide an exemption for annual taxes on new housing projects

A house can be sold at market value, but there is still a minimum cost to take a project from dirt to door. Several new housing taxes introduced in Budget 2018 impact the cost of new construction, and ultimately the price paid by new home buyers.

For example, the property transfer tax and school tax was increased for properties over $3 million. While the average person may correlate that with a luxury home, it can also be the price for a very average size of property used to build multiple family-sized units in all parts of the province.

Home builders are required to purchase land in advance. It's an essential raw material to the development process. However, this land is also subjected to several taxes for the time it takes to move it through the development process and the time window is largely out of the developer's control. It is very possible to identify properties for development, such as through the municipal permitting system.

If we want to impact housing affordability, this is a tool available to the provincial government. We cannot ignore the reality that these new taxes are adding to each unit cost of housing.

Recommendation

- Exempt properties in the development process from the additional school tax and speculation tax* on an annual basis.

**As the speculation tax details and legislation outcomes are not available at the time of submission, CHBA BC must assume within this submission that there is a potential impact on land for development or the tax is going ahead as described in September 2018. It is hopeful that land under development is an exemption within the speculation tax legislation, or changes to the legislation take place as per below.*

4. Modernize the Property Transfer Tax to reflect increase in average home prices

With rising prices, the property transfer tax (PTT) burden on home buyers has also increased. At the same time, provincial revenue from the PTT has never been higher as a result. This tax structure was first implemented in the 1980s with few amendments. It's time for a modern adjustment to this tax.

a) *Increase the first-time home buyer exemption threshold to $750,000.*

Increasing the program threshold to at least $750,000 would allow more first-time home buyers to take advantage of the significant tax savings in this program. At present, first-time home buyers are approximately 20 per cent of buyers, a key demographic in the housing market.

It would also create consistency by keeping the thresholds the same for all housing programs, including the newly-built home exemption. These programs could then be adjusted concurrently as necessary.

b) *Increase the 2% PTT threshold from $200,000 to at least $525,000.*

When the PTT was first introduced, it was a luxury tax. Now, many properties are priced well above the $200,000 threshold. This measure would help all consumers for both new and existing homes, and is an immediate way to decrease the tax burden on British Columbians.

c) *Review the PTT thresholds annually for the 2% and 3% thresholds, the First-time Home Buyers program, and the Newly-Built Home Exemption.*

As prices rise, these programs will have to be adjusted to ensure the maximum number of British Columbians can benefit.

d) *Grandfather existing contracts and encourage industry consultation when introducing any changes to tax measures on housing.*

Home buyers can commit to newly-built projects months and years in advance, using the knowledge and financial information available at the time of purchase. It is unfair to make changes and not honour contracts in place, for both home building businesses and the purchasers. This was not done in August 2016 with the foreign buyers' PTT, which caused a panic for many buyers and sellers as a result.

CHBA BC also recommends industry consultation in advance of new housing measures. Home builders can contribute valuable insight to any provincial discussion with first-hand experience on the ground. This is especially important in areas with a shortage of available land, as the rising land prices can also price out home builders from starting new projects.

5. Remove and review speculation tax legislation with broader stakeholders

As of this submission, the speculation tax legislation outcome is unclear. CHBA BC is very concerned about this tax's current impacts on the residential construction industry, especially outside the Lower Mainland and is opposed to the tax in its current form. Hundreds of new home contracts have been cancelled, both within and outside the boundaries. This doesn't just affect the home builder and their home owner. It impacts the 60 trades that contribute to a new home, and the local suppliers they purchase materials from. This impacts B.C.'s business community and broader economy.

In addition, one of the biggest challenges is the uncertainty the tax creates. In areas outside the core tax cities, such as North Okanagan or the Kootenays, home buyers today still will not proceed because of the fear the tax one day may be in their municipality and impact their affordability calculations. This will not be

alleviated if municipalities are able to opt-in and opt-out of the tax at their will, as suggested as an amendment, and is a big concern for CHBA BC.

Recommendation

- Remove the current speculation tax legislation and review with broader stakeholders.

Conclusion

There are many factors that have contributed to the rising cost of construction, and home prices by extension. These include, but are not limited to, the following: building code changes, local government fees, unfair tariffs and trade disputes, trades shortages, product costs and availability, bylaw changes, lengthy processes and new municipal requirements.

There are tools available to the provincial government to impact on the taxes and fees paid by new home buyers for new housing projects. We can't make housing cheaper without reviewing the costs of construction.

In addition, when considering energy efficiency and proper materials disposal, there are opportunities to be creative and consider new approaches with tax incentives, while dissuading homeowners from working with underground economy operators.

Lastly, a focus on market housing affordability should be a priority for the provincial housing strategy and any budget investments. The discussion must also separate the "missing middle" needs that are not yet being met in the current environment. The expansive affordable housing investments undertaken by the Government to date are to commended, but the whole housing continuum needs to be considered when looking at housing policy and Budget 2019.

Thank you for the opportunity to provide input. Please let us know if we can provide any further information.

Sincerely,



Neil Moody
Chief Executive Officer