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October 20, 2017

The Hon. Wayne Easter
Chair, House of Commons Standing Committee on Finance
Parliament of Canada
Committees and Legislative Services Directorate
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Dear Chair and Members of the Standing Committee on Finance:

Re: Urban Development Institute Pacific Region (UDI)
2018 Pre-budget Submission

We would like to thank the Committee for inviting UDI to present to you during your hearings in Vancouver earlier this month. Unfortunately, due to a prior commitment we were unable to participate in person. We appreciate the opportunity to provide you with a written submission of our comments and recommendations on behalf of our members for the 2018 Federal Budget. Our recommendations cover four areas:

- The need for investments in social housing and incentives for market rental housing;
- Concerns with the focus of the Federal Government on measures to restrict housing demand;
- The need for increased investments in transit/transportation infrastructure, but with density targets, especially for transit, linked to federal funding; and
- Tax fraud and money laundering.

About UDI - Pacific Region

The Urban Development Institute is a non-profit association of the development industry and its related professions that is non-partisan in its activities. With over 700 corporate members, UDI Pacific represents thousands of individuals involved in all facets of land development and planning, including: developers, property managers, financial lenders, lawyers, engineers, planners, architects, appraisers, real estate professionals, local governments and government agencies.

Since 1972, UDI has been dedicated to fostering effective communication between the industry, government, and the public, and aims to improve both housing and job opportunities for all British Columbians. UDI serves as the public voice of the Real Estate Development Industry, communicating with local governments, the media, and community groups. UDI concentrates its activities in three primary areas: government and community relations, research, and professional development and education.

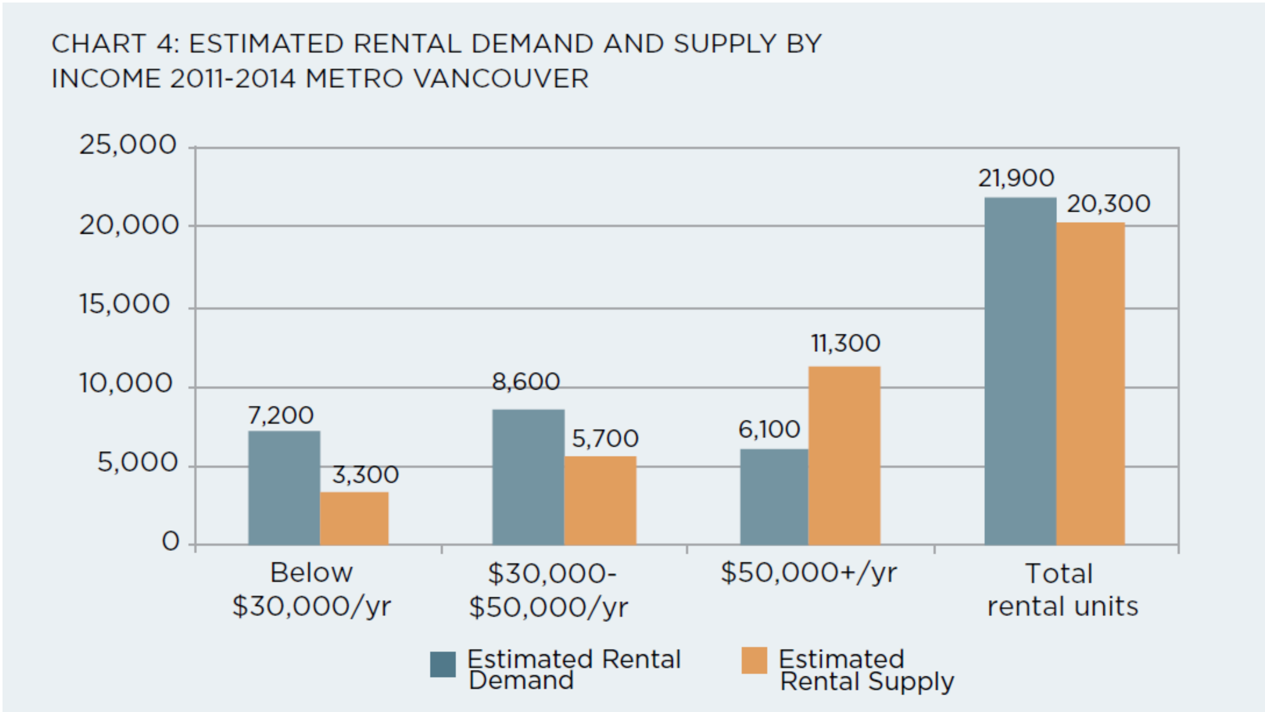
A Snapshot of Our Industry Contributions to GDP

The Real Estate and Development Industry has a significant impact on employment, economic growth and government tax revenues. The most recent Statistics Canada July 2017 report shows construction and real estate together contribute **20% to the national GDP**. In British Columbia, the industry represents one-quarter of the Province's GDP, and has played a significant role in B.C.'s nation leading economic performance over the past three years. An independent analysis found that the development industry every year in B.C.:

- Contributes over $17 billion to the provincial GDP;
- Employs over 200,000 British Columbians (including dependent occupations); and
- Generates $3.5 billion in revenues to governments at all levels.

Recommendation 1: The Federal Government work with the Provinces and the Real Estate and Development Industry to increase the supply of housing – including rental and social housing.

Experience has shown that over the past decades, the federal government has actively removed itself from the housing file. The federal tax incentives for rental housing that were rolled back in the 1970s and 1980s, have been one of the cited reasons for the rapid decline in rental housing starts in Canada. In 1972, almost half of the housing starts were rental units. After the tax incentives were removed, rental housing unit starts declined to below 10% between 2001 and 2010. Metro Vancouver found that "… from 2011 to 2014 … new rental supply fell short of rental demand by about 1,600 units overall." Now the rental vacancy rate in Metro Vancouver is 0.7% and a one-bedroom unit is over $2,000 a month.



Source: Metro Vancouver Regional Affordable Housing Strategy

On the social housing front, declines in federal support began in the 1980s; until 1993 when federal funding stopped. In 1996, the federal government began to download social housing programs to the provinces (and therefore also municipal governments). Those governments have tried but failed to fill the void. Provinces formed partnerships with the non-profit and private sectors. Statistics Canada's data on interprovincial migration, below, clearly shows BC is receiving many more new residents than any of the other provinces, except Ontario. Along with that comes additional homeless and low-income residents who need housing supports. Expectations are high that the forthcoming *National Housing Strategy* will provide significant funding, in conjunction with other levels of government, to help address this need.

Table 051-0017 [1, 2, 11, 12, 13]

Interprovincial migrants, Canada, provinces and territories

quarterly (persons)

Data table | Add/Remove data | Manipulate | Download | Related information | Help

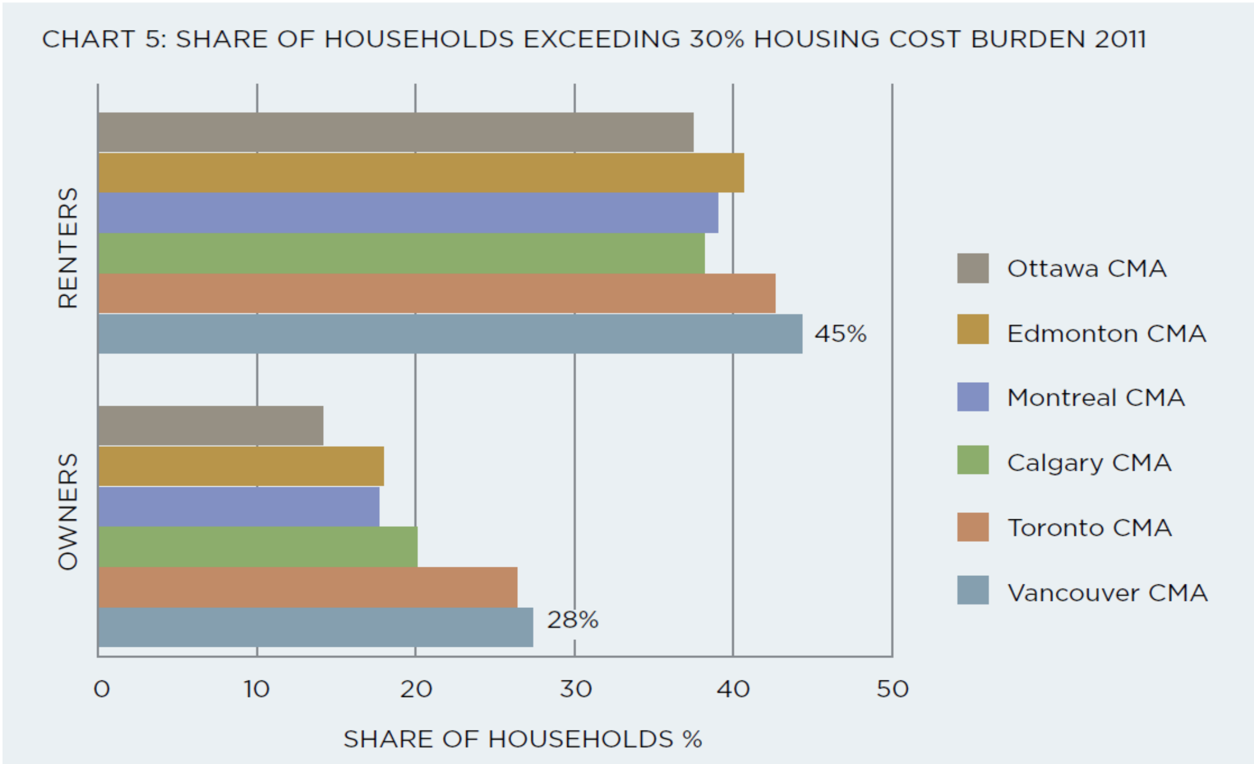
The data below is a part of CANSIM table 051-0017. Use the Add/Remove data tab to customize your table.

Selected items [Add/Remove data]

Interprovincial migration = In-migrants

Geography	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Newfoundland and Labrador [3]	2,397	1,534	903	1,713	2,409
Prince Edward Island [3]	1,145	767	457	941	1,485
Nova Scotia [3]	5,440	4,932	2,218	4,338	5,723
New Brunswick [3]	3,237	3,720	1,530	3,115	3,741
Quebec [3]	6,697	7,561	3,387	5,200	8,268
Ontario [3]	26,128	29,718	13,495	18,871	29,045
Manitoba [3]	3,824	2,920	1,897	3,013	4,015
Saskatchewan [3]	5,369	4,565	2,767	4,265	5,909
Alberta [3]	19,513	18,097	9,810	15,762	20,945
British Columbia [3]	22,690	17,965	10,279	14,799	22,076
Yukon [4, 8]	688	359	258	475	522
Northwest Territories including Nunavut [5, 9] (Terminated)	(T)	(T)	(T)	(T)	(T)
Northwest Territories [6, 10]	641	431	227	785	706
Nunavut [6, 10]	361	231	138	391	674

Local governments introduced incentives, inclusionary zoning requirements and affordable housing fees onto the development sector. There is a limit to what our industry can provide in terms of social housing. Senior government funding is necessary. Despite efforts from the provinces, local governments, the non-profit sector and our industry, we have fallen behind. We are not producing enough social housing supply, and are not meeting the needs of lower income Canadians. In Metro Vancouver, 45% of renter households spent 30% or more of their income on housing costs in 2011. Other Canadian cities also had a significant number of households with a housing cost burden of 30% or more (see below).



Source: Metro Vancouver Regional Affordable Housing Strategy

UDI, provinces, municipalities, non-profits and other stakeholders are greatly encouraged that the federal government is embarking on a new *National Housing Strategy*, and we are very hopeful that the plan to be released shortly will be ambitious and focus heavily on housing supply. UDI has long advocated for the need to increase housing supply to address our affordability issues in Urban Canada.

With a commitment to build 114,000 rental, social and co-op homes over the next ten years, the new B.C. Government has an aggressive agenda to increase housing supply across the Province. While our industry will be working hard with the Province to achieve this goal, it is doubtful that the 10-year objective can be met without serious federal partnerships - especially funding to increase the number of social housing units and tax incentives.

To improve and increase the amount of purpose-built market rental housing, UDI has long advocated using tax incentives, including reinstating some measures that have been regrettably cancelled in the past. It will also be critical to keep a positive overall investment climate, so the government should avoid increasing the *Capital Gains Inclusion Rate* (*CGIR*).

UDI recommends that:

- ***The Federal Government partner with the B.C. Government's efforts to add 114,000 homes in the province over the next decade by providing partnerships, land, financing and significant funding.***
- ***This effort should also include using federal tax incentives to improve and increase the supply of rental housing units in B.C. and across Canada, including:***
    - ***A full rebate or exemption of the GST on new rental housing;***
    - ***Inclusion of GST Input Tax Credits on the ongoing operation of Rental Housing;***
    - ***Deferral of Capital Gains Tax and recaptured Capital Cost Allowance (CCA) upon sale of a property and re-investment in new rental housing;***
    - ***Increase in CCA to 5% for all new rental housing including mixed-use buildings;***
    - ***The extension of eligibility for use of CCA losses to all investors in new rental housing; and***
    - ***Not moving forward with increases in the CGIR from to 66.67% or 75% as has been contemplated in the past.***

Recommendation 2: The Federal Government should move away from introducing further demand-side measures for the Real Estate and Development Industry.

Given the impact and importance of our industry to the B.C. and Canadian economies we are concerned with the emphasis all levels of government have placed on introducing demand-side measures to address escalating housing prices. In Vancouver, the City has introduced an Empty Homes Tax and is considering placing restrictions on pre-sales for people moving to the City. The previous Provincial government added a luxury tax on housing transactions and a Foreign Buyers' Tax. The new provincial government is proposing a yearly two per cent absentee speculators' tax.

At the federal level, the focus has been on the ongoing tightening of mortgage rules to "cool" the housing market over the past eight years – despite the objections that have been continually raised by UDI and others in the Real Estate and Development Industry. As recently as fall 2016, the government introduced sweeping changes to further limit mortgage lending in Canada through required stress tests for new mortgages and further mortgage default insurance eligibility restrictions. Now, this week the Office of the Superintendent of Financial Institutions (OFSI) has announced that as of January 1, 2018 the stress test restrictions will expand to mortgages that are not insured and where the down-payments are over 20% of the mortgages.

As a result of the cumulative effect of the changes, homebuyers are facing an even greater erosion to their purchasing power resulting in fewer buying options available to them. For example, some observers have noted the changes in 2016 reduced the purchasing power of some homebuyers by 20% to 30%. Many young families and first-time home buyers are being priced out of the housing market – perhaps an unintended result of these rules and restrictions. Rather than further restrictions, the

Government should consider expanding opportunities for first-time buyers to borrow more from their RRSPs given the disparity in home prices across the nation.

The necessity of the most recent changes by OSFI is questionable given CMHC data demonstrates that B.C. and Toronto (the two housing markets of most concern to federal government) are both well below the national average mortgage default rate of 0.5%. Further, the Minister of Finance, informed your Committee that "… *the* [October 2016] *rule changes are having their intended effect*." Why then are the additional OSFI measures being implemented?

Our concern is that the jobs, investment and taxes our industry generates are being put at risk. Even worse, those parts of B.C. and Canada where the housing market and prices are stable or in decline (e.g. rural and northern British Columbia) will face additional drags on their economies.

UDI recommends that:

- ***The Government not move forward with the proposed OSFI changes to mortgage rules;***
- ***If the Government does proceed with the restrictions, they not be applied to regions where housing markets are stable or weak;***
- ***Rather than adding restrictions for new homebuyers, the Government consider allowing residents to borrow more than the first-time homeowner 25K loan cap from their RRSP, set by the federal government;***

Recommendation 3: The Federal Government, in conjunction with the other levels of government, invest in transit and transportation infrastructure with a key caveat that local government provide appropriate land uses and housing density targets near the infrastructure (especially transit projects).

Another way the federal government can facilitate increased housing supply is by investing in the transportation infrastructure that supports housing and economic development. Urban areas, where over 80% of Canadians live, require significant investment to dramatically expand transit and transportation infrastructure.

Significant transit investments will improve housing affordability. In Metro Vancouver, the Surrey LRT will allow access to more affordable land South of Fraser and allow people who live there to connect to employment and education opportunities throughout the Region, including the Broadway Corridor, which will be served by the proposed Millennium Line Extension. We don't just urgently need rapid transit investment in the Lower Mainland, but we also need it in Victoria and the South Island, and connecting Kelowna and the communities of the Okanagan.

Development near transit also usually includes a wider mix of units, including multi-family units, which are smaller and less expensive than single-family homes. In addition, people and families who live in those units do not have to rely on cars for transportation.

However, to fully leverage the taxpayer investments along these lines and improve housing affordability, we need coordinated public policy at all levels of government to boost the supply of housing near transit hubs. Senior governments have to ensure that appropriate Transit Oriented Development (TOD) land-use policies are implemented at stations and along transit corridors. There is little value in investing billions of dollars in transit infrastructure if only a few people are allowed to live and work nearby. UDI continues to call for growth targets near new transit lines and stations. The density targets must be included in binding funding agreements between the federal, provincial, regional and local governments where federal tax dollars are expended on transit and transportation projects.

This TOD approach will help meet other federal objectives, including:

- Fully leveraging tax-payer investments in transportation infrastructure with increased ridership;
- Economic development benefits from having more connected urban regions (we note the recent Amazon RFP for the HQ2 that several Canadian cities are bidding on, included expectations for increased transit access);
- Carbon emission reductions as multi-family units are smaller and better protected from the elements, and people are more likely to walk, bike or take transit to destinations rather than cars;
- Improved public health (and thus lower health-care costs) as people are utilizing more active transportation options; and
- Improved goods movement as commuters take transit rather than drive; freeing up space for trucks on our congested highways where Transport Canada estimates this costs our economy about $1.5B annually. Nowhere is this more important than Vancouver, the home of Canada's largest shipping port.

As you may know, Metro Vancouver has been facing funding gridlock for its transit and transportation plan. We are approaching year four of the Mayors' Council 10-Year Vision, with the funding agreements with senior governments for Phase 2 not yet completed and the regional funding source for TransLink still not finalized. The major projects under the Plan, the Surrey LRT, the Broadway Millennium Line Extension, and the Pattullo Bridge replacement, have not broken ground. UDI and other stakeholders in the Better Transit and Transportation Coalition applaud the federal government's commitment to fund over $2.5 billion for Mayors' 10-year Plan and urge both senior governments to provide certainty by securing the funding agreements with TransLink and Mayors' Council as soon as possible.

This issue is so important to our industry that we have been supportive of a regional transit infrastructure charge on new development in Metro Vancouver. It is unusual for our industry to support new development fees and charges because of the real impact on housing affordability for the end user. However, in this case, we support a regional DCC for transit and believe the impact of these charges on affordability can be mitigated due to the benefits of transit investment on affordability noted above.

UDI recommends that:

- ***The Federal Government further expand its funding partnerships with provincial, regional and local governments for transit and transportation projects in urban regions;***
- ***These funding arrangements must include binding density targets for new development near the infrastructure – especially along transit corridors and around transit stations;***
- ***In Metro Vancouver, the Federal Government quickly finalize with the B.C. Government and the Mayors' Council the funding arrangement (with development targets) for 10-year Vision, so the key projects in Metro Vancouver can move forward.***

Recommendation 4: The Federal Government work with the industry and provincial governments to better manage tax fraud and money laundering (or the perception of it).

The current media and public perception is that lax government regulations and enforcement are allowing fraud, tax evasion and money laundering to occur in the real estate sector. Whether this is true or not, or whether the extent of the issue is small or large is not clear. However, the impact of these sentiments on the reputation of all levels of government and our industry are significant.

For a substantial number of development projects, our members depend on discretionary approvals from local governments. These will become harder to obtain if there continues to be a negative perception of the industry and a belief that some people buying homes in Canada using foreign funds are not declaring their total incomes and throttling up purchase prices. This perception undermines the collective ability to deliver the supply of housing we need if we are going to improve housing affordability in fast growing metropolitan areas such as Toronto and Vancouver.

The new B.C. Government would like to address the issue through a multi-agency task force. UDI supports this initiative – although it is critical that the federal government be involved and the Real Estate and Development Industry be extensively consulted, so unintended consequences can be avoided.

If tax evasion is occurring because of loopholes, those loopholes need to be closed. If fraud and money laundering is happening because there is not enough education/enforcement, then resources for the Financial Transactions and Reports Analysis Centre of Canada (and other government agencies) need to be increased. If privacy laws need to be amended, so data can more easily be shared between the industry and the government, then the needed legislation and regulations must be updated. We do not consider these changes to be demand-side measures, they are measures to ensure that federal and provincial laws can be followed and enforced.

UDI recommends that:

- ***The Federal Government participate in the multi-agency task force that is being proposed by B.C. Government, which should include extensive consultation with the development industry.***

UDI would to thank the Committee again for the opportunity to present our comments and recommendations on behalf of our members and industry. We hope you will consider our recommendations to limit future federal demand-side incursions into the economically vital housing market, and instead deploy significant federal resources to expand housing supply through social housing investments, rental housing tax incentives and transit/transportation expansion in urban areas with housing density targets through a regional plan. If any of you have questions regarding our recommendations, please do not hesitate to contact me at 604.669.9585 or by email at AMcMullin@udi.org.

Yours sincerely,

Anne McMullin
President and CEO

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