For Immediate Release

BC Real Estate Sector Urges Federal Parties to Act on Affordability Recommendations

Vancouver, BC – October 2, 2019. Too many British Columbians struggle to find an affordable home to rent or own because of a lack of housing options. Nearly six in ten uncommitted Canadian voters cite access to affordable housing as a top election issue, according to an August 2019 Angus Reid survey.

The next federal government has the opportunity to improve affordability by reducing taxes on new rental homes, encouraging housing supply to match transit targets and changing mortgage underwriting rules.

Six organizations representing the BC housing sector have partnered to make housing affordability recommendations that focus on much-needed solutions.

The participating organizations include the British Columbia Real Estate Association, the Canadian Mortgage Brokers Association – British Columbia, Landlord BC, the Mortgage and Title Insurance Industry Association of Canada, the Real Estate Board of Greater Vancouver, and the Urban Development Institute.

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Read their full statement:

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1. Remove GST as a major barrier to new rental housing

British Columbia has a rental housing shortage. Metro Vancouver's overall rental vacancy rate has hovered around one per cent or lower for the last five years. CMHC estimates the region has had a net loss of 6,000 purpose-built rental units since 1991. At the same time Metro Vancouver's population has grown by over one million people and is forecast to grow by an additional million in the next 20 years. This scarcity of rental housing has resulted in increased rental prices and stress for renters, a situation that will continue unless decisive action is taken.

A barrier to addressing the lack of new rental options is the punitive application of the five per cent GST on new purpose-built rental buildings. Under GST rules, a builder pays GST on the "self-supply" of a purpose-built rental building when construction is completed. This means that when rental developers intend to keep, manage and operate new purpose-built rental homes, GST rules require that they pay GST on the market value of the building and property at completion as if they've sold it. This is essentially a sales tax on an artificial transaction that adds millions of dollars to the cost of new rental buildings, even for non-profit home builders. A recent analysis of a 117-unit project in Vancouver showed how removing the GST could reduce monthly rents between 3.04 and 6.06 per cent. This additional tax negatively impacts renters, because rental providers must recover the costs through increased rents.

Removing the GST would make purpose-built rental projects more financially viable and could provide lower rental rates for affordable housing projects.

We recommend:

- fully rebating or exempting the application of GST on new rental housing.

2. Link federal transit investments with federal housing targets

The federal government can encourage effective land use and transportation decisions by linking the need for more housing options with the significant federal transit funding that is planned. Setting new land use guidelines with housing targets for transit investments would unlock additional home options by supporting regional and local transportation plans.

We recommend:

- leveraging contributions to local rapid transit projects by requiring housing targets,

- providing preferred terms/rates to projects within CMHC's Rental Construction Financing initiative that are within a specified distance from a current or planned frequent transit network,
- topping up federal cost-share ratios for rapid transit projects, currently up to 50 per cent of non-land related capital costs, by a modest percentage for projects that meet or exceed housing targets, and
- working with provincial and local governments, including Metro Vancouver, to explore a transit-oriented affordable housing fund to encourage more purpose-built rental housing, with a deeper level of affordability, near existing and new transit.

3. Adjust the mortgage stress test and amortization rules

In 2018, the federal government enacted new mortgage rules that require borrowers to qualify for a mortgage at the higher of either the rate they've negotiated with their bank plus two per cent or the Bank of Canada's five-year rate. This B-20 stress test has had a pronounced impact in BC, causing an estimated $500 million in lost economic activity.

The B-20 stress test should be a flexible policy that is adjusted regularly to respond to economic trends.

B-20 is now due for an adjustment for the following reasons:

- the debt burden has increased for people unable to access conventional financing who must resort to more expensive alternative mortgage financing,
- personal incomes nationally have risen by 12.5 per cent over the last five years, and
- a borrower's equity position increases throughout the term of a mortgage due to principal payments.

Changing the stress test would help achieve the government's goal of ensuring Canadians don't take on more debt than they can bear, while acknowledging ongoing economic trends.

We recommend:

- reinstating 30-year amortizations for insured mortgages to make monthly payments more manageable,
- qualifying all borrowers at their contracted amortization period (e.g., 30 years) instead of a 25-year period, and

- excluding the stress test for mortgage transfers and switches, which better enables borrowers to shop for competitive mortgage terms at renewal time, and employing flexible stress tests that reflect the level of risk posed by the terms and conditions of the particular mortgage, including amortization period, fixed vs. variable rate and how interest rates are forecasted to change over the term of the loan.

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