

Attachment to NVCAN March 20 2019 Minutes – Rental Housing

ISSUE

Home affordability is a top of mind issue for most citizens throughout BC. Increasing real estate prices have created a crisis for many families – unable to afford a down payment to get into the housing market or even find/afford suitable rental accommodations.

It is generally acknowledged that we have not seen substantial new supply of purpose-built rental housing in several decades. New building units are too small, mostly 1 bedroom and rents have an inordinate jump-up beyond 1 bedroom.

BACKGROUND

- The Federal GST and the Provincial Property Transfer Tax have created a grossly imbalanced “playing field” such that if a developer chooses to place new building into long-term rental, they are penalized for doing so.
- A developer would have to forego over 54% of their expected profit margin in order to do so. If they sell the unit(s) on the marketplace they retain full margin – so why build rental?
- The existing New Housing Rental Rebate - 36% of the GST - has little-to-no applicability in the Lower Mainland market, because it is limited to units priced under \$450,000. In Vancouver, this excludes all but the most compact of living spaces.

SOLUTION

In order to help address this crisis, the Federal government should make changes to the GST Input Tax Credits. By allowing developers to claim 100% of their GST Input Tax Credits when they commit to long term rental housing supply we will incent developers to build more rental housing.

Because long-term residential rent is exempt from GST, developers are prevented from claiming the GST as a receivable. Therefore, tax becomes a direct expense and therefore, cost prohibitive.

The New Home Rental Rebate program could be used to administer the change. If we allowed 100% rebate of GST on rental properties and based the program limits on size rather than price, we would at least help level the playing field between market purchase and long-term rentals by providing more choice for developer based on the local market.

One word of caution – we would need to preclude a conceivable loophole that people setup shell corporations to purchase property and then rent it back to themselves to avoid GST.

In addition, the Provincial Property Transfer Tax has a similar effect on rentals and provincial governments should be encouraged to exempt the Property Transfer Tax on the completion and sale of purpose-built-rentals.

Gaps in budgets could be addressed by directing funds from National and Provincial Housing Programs to fund these tax exemptions in order to provide real incentive to developers to provide rental spaces for families.

Historically, there have been two reasons we have not seen real supply of new purpose-built rentals in several decades – 1) the GST and 2) the Provincial Property Transfer Tax. These programs have been barriers to doing so.

Municipalities have been struggling to try to compensate developers by waiving Development Cost Charges, Community Amenities or by providing Density Bonuses. These three things cannot hope to level the playing field and they have detrimental effects on neighbourhoods and communities.

This is an area where Federal and Provincial Tax policies have created a skewed marketplace that is harming our communities. Benefits should follow if we get government out of the way and provide balanced choices.