



Getting Serious About Affordable Housing

TOWARDS A PLAN FOR METRO VANCOUVER

By Marc Lee

MAY 2016



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

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Summary

THIS PAPER DRAWS UPON THE LATEST DATA AND RESEARCH to examine skyrocketing housing costs in Metro Vancouver and their contribution to growing inequality. Most of the recent headlines focus on the spectacular increases in real estate prices. But there is also a serious crisis in the rental housing market, and completely inadequate housing for the most needy.

In short, the housing market is broken, and we need more rational planning and management of Vancouver's housing in the interests of local people. This paper proposes a bold affordable housing solutions agenda, including an ambitious program of public re-investment in social and co-op housing, putting the brakes on absentee ownership, and progressive property taxation options.

METRO VANCOUVER'S HOUSING CRISIS

The housing market is broken, and we need more rational planning and management of Vancouver's housing in the interests of local people.

A number of factors are driving up housing prices:

- Metro Vancouver's population has grown by over 420,000 people to 2.5 million since 2001. The bulk of this growth is from immigration.
- An extended period of low interest rates has allowed households to take on larger mortgage debt.
- Inter-generational transfers of real estate wealth gains have enabled homeowners' children to afford high prices.
- External capital inflows into the high end of the market have led to ripple effects further down the property ladder and in other parts of the region.

Much recent attention has been on Chinese investors. However, the bigger context is that the world's super rich are parking their wealth in real estate in gateway cities like London, New York, Hong Kong and now Vancouver. A fundamental problem is that housing is being treated primarily as an investment rather than as a place to live.

Surging prices have further widened the gap between rich and poor:

- The distribution of housing wealth is highly unequal. In BC, some 68 per cent of the net worth of principal residences is owned by the top 20 per cent of households.
- Between 1999 and 2012, the average gain in the value of principal residences was \$339,500 per BC household in the top 20 per cent, and \$205,300 for the next 20 per cent (increases of 83 per cent and 85 per cent respectively).
- This growing inequality in real estate wealth is much higher if we just look at Vancouver, and higher still considering increases between 2012 and 2016.

These dynamics are having a knock-on effect in the rental market, keeping tenants in rental housing longer and pushing down vacancy rates. Other factors affecting the rental market include:

- Provincial rent controls have too many loopholes. Rents can be raised 2 per cent beyond inflation, with much higher rent increases when tenants move or are displaced.
- Major federal programs to build new non-market housing (co-op or social housing) ended in 1993, and provincial programs in 2002. Federal tax incentives for purpose-built private rental construction were eliminated in the 1970s and early 1980s.
- In the context of a very tight rental market, Airbnb and similar services are diverting part of the longer-term rental stock, making the affordability challenge worse.

Municipalities and the regional government have taken steps to encourage new affordable rental stock. However, in the absence of operating subsidies, the resulting rents for the new “affordable” units may still be out of reach for most low-income households.

RECOMMENDATIONS FOR A HOUSING AFFORDABILITY AGENDA

This paper discusses five themes of a “big bang” affordability agenda. The focus is on BC government action, although federal, regional and municipal governments all have a role.

1. Build new affordable housing stock

This paper calls for an ambitious construction program funded by the provincial and federal governments, with a focus on social and co-op housing. There are 3,000 homeless people in Metro Vancouver, and about 145,000 households in “core housing need” (spending too much of their income on housing).

There is every reason for our governments to move forward with an ambitious build-out of 5,000 to 10,000 new units per year, as well as advancing innovative affordable ownership models like community land trusts.

A new housing unit costs about \$250,000 on average to build, so the total costs would be \$1.25 to \$2.5 billion per year, less if governments contributed land and waived development fees. This up-front cost would largely be repaid in rents over the lifetime of the building.

2. Preserve and re-invest in existing affordable housing

To preserve existing affordable housing stock federal supports for social housing must continue —these are under threat as operating agreements expire. The annual value of these subsidies is about \$200 million province-wide.

Re-investment in the form of upgrades and maintenance is also needed; this includes energy efficiency and low-carbon retrofits. The BC Non-Profit Housing Association estimates it would cost about \$190 million to get existing non-profit units into a safe and comfortable condition for tenants, and \$380 million to get them up to new condition.

Similar upgrades are needed for all purpose-built rental housing. BC’s older housing stock has poorer energy efficiency performance and higher carbon emissions than newer stock.

There is every reason for our governments to move forward with an ambitious build-out of 5,000 to 10,000 new units per year, as well as advancing innovative affordable ownership models like community land trusts.

3. Create inclusive housing in complete communities

As the population grows, Vancouver will continue to grow up instead of out, with new multi-storey buildings instead of single-family homes. Urban planners have emphasized the development of “complete communities”—low-carbon neighbourhoods where people live in much closer proximity to where they work, shop, play and access public services.

Pushes for densification, however, have fuelled conflict with local residents—largely because of developers proposing condo towers that are not affordable and that may displace existing residents. For private developments:

- Gentler forms of density (duplexes and triplexes, laneway houses and row housing) up to mid-rise buildings may be less profitable but better integrated with and accepted by existing neighbourhoods.
- Inclusionary zoning, which designates a percentage (typically 20–30 per cent) of newly constructed units as affordable, should be incorporated as a design principle for all new developments, thereby locking in affordability as new market housing is built.

4. Put the brakes on absentee ownership and speculative investment

The ability of external capital to flow into local real estate has gone unquestioned in recent media reports. Yet unrestricted non-resident ownership of local real estate is neither inevitable nor desirable. For the most part, the local real estate market should be limited to those who live and work in the city most of the year.

Domestic and international immigration is certainly welcome, but should not be confused with non-resident investment. A number of other jurisdictions have wrestled with this challenge and implemented regulatory and tax changes, including Switzerland, Australia, the United Kingdom, Singapore and Hong Kong.

BC’s property transfer tax (PTT) could play a more prominent role in curbing other ills of the real estate market, with a more progressive rate structure (like the United Kingdom). In addition, reforms could include differential tax rates for sales to non-BC resident buyers and/or purchases of non-principal residences or rental properties.

5. Make property taxes fair

Reforms to the tax treatment of property should aspire to: 1) make the property tax system more fair to renters; 2) reduce wealth inequality and improve the overall equity of the tax system; 3) curb speculation and external investment that drives up prices; and 4) raise revenues to help finance the housing agenda proposals listed above.

Property taxes have good potential for raising new revenues in a fair and efficient manner. Property taxes in Metro Vancouver are low when compared to other Canadian jurisdictions.

A shift to a progressive property tax system could add brackets starting at \$1 million of assessed value (this would exclude 76 per cent of homes), and could raise up to \$1.7 billion per year. A progressive rate structure would also encourage increases in density, creating an incentive for expensive properties to sub-divide their lots into multi-family properties.

Reforms could include differential tax rates for sales to non-BC resident buyers and/or purchases of non-principal residences or rental properties.

The homeowner grant is costly to the provincial treasury and goes to all qualifying households regardless of their income. Renters, on the other hand, receive nothing from the grant but contribute property tax through their rent payments. These homeowner grants should be eliminated and replaced with a refundable income tax credit or tax benefit that would go to all BC residents based on income.

The *income tax system* provides unfair preferential treatment to those with real estate wealth. The non-taxation of capital gains on the sale of principal residences in BC translates into foregone revenues of about \$300 million annually. BC should consider placing a ceiling on this highly inequitable tax benefit, perhaps in the range of \$500,000, beyond which capital gains would be subject to taxation.

Putting these pieces together, affordable housing for the future should be financed by the gains to homeowners from rising housing prices. This is central to ensuring greater opportunities for all, in particular the next generation.

The biggest challenge in achieving affordable housing is lack of political will. We call on all parties in the next provincial election to consider the framework presented in this paper: it asks the main beneficiaries of skyrocketing housing prices—the real estate, development and construction industries, and homeowners who have made large profits in the “lottery” of Metro Vancouver’s housing market—to give back to the economy by helping to finance affordable housing.

Introduction

A public opinion poll in 2015 found that almost half of respondents were “uncomfortable” or “miserable” with their combined housing and transportation situation.

METRO VANCOUVER’S HOUSING MARKET HAS REACHED DIZZYING HEIGHTS. As headlines announce all-time record home sales and prices, households are wondering what this hyperinflation means for the future. A comprehensive public opinion poll by Angus Reid in 2015 found that almost half of respondents were “uncomfortable” (27 per cent) or “miserable” (18 per cent) with their combined housing and transportation situation. But even among those who were “happy” (21 per cent) or “comfortable” (34 per cent), a large majority felt that high housing costs are hurting the region.¹ A growing mismatch between average incomes and home prices may have longer-term consequences: one-third (33 per cent) of homeowners and more than half (57 per cent) of renters were seriously considering leaving the region due to the cost of home ownership. Even those who own their homes worry about how their children will be able to remain nearby as they start their own families.

The extreme situation in Metro Vancouver² has led to public support for stronger policies aimed at delivering affordable housing. The Angus Reid poll found extensive support for various government interventions in the property market, including taxes on speculative purchases (69 per cent support) and vacant homes (82 per cent), limits on foreign purchasers (72 per cent) and an extra property transfer tax for buyers from outside Canada (79 per cent). Support for these interventions is above 61 per cent even among the Happy and Comfortable groups, indicating that people see ensuring fair outcomes as a bigger priority than protecting housing market windfalls.

To date, the combined efforts of all levels of government have been insufficient. Municipal governments are taking the lead on housing affordability, to varying degrees, but largely without senior government financial support. The province’s new plan to build 2,000 units of affordable housing over five years and the federal government’s re-entry into the housing field are welcome,

1 Angus Reid Inc., “Lotusland Blues: One-in-five Metro Vancouverites experience extreme housing & traffic pain; most of them think of leaving,” June 18, 2015, <http://angusreid.org/vancouver-real-estate/>.

2 Unless otherwise stated, all references in this paper are to Metro Vancouver.

albeit modest, moves in the right direction. Governments are also demonstrating a keen interest in better understanding how external capital is driving Vancouver real estate markets.

Yet, by and large, the government in British Columbia has taken a fairly hands-off approach to rising housing costs, stating that its priority is to preserve (windfall) equity gains for homeowners and orienting its policy overall toward promoting home ownership, including tax breaks for first-time buyers. The province's efforts and public expenditures on housing for those most in need (including shelters, a modest number of supportive housing units, some share of operating costs for social housing, and rental assistance grants) are very limited relative to current needs and relative to earlier decades.

Addressing affordability in a meaningful way requires dusting off tools to manage and regulate the housing market in the interests of regular people. Canada relies more on the private market to provide housing than many comparable countries.³ Yet, our own history and the experiences of other jurisdictions teach us that market forces alone are not sufficient to address affordability. Indeed, treating housing primarily as a vehicle for investment is central to the affordability problem. Instead, several decades of strategic public intervention and investment involving all levels of government will be required.

The following sections discuss five themes towards a meaningful affordable housing strategy in Metro Vancouver. About half of BC's population lives in this region, where affordability problems are most acute. In particular, the framework emphasizes what the BC government could do to take a leadership role on housing. This "big bang" framework includes:

- Develop new affordable housing for a diverse range of housing needs, both rental and ownership, including both traditional social housing as well as innovative tenure arrangements like community land trust models.
- Introducing a housing renewal fund to support and upgrade existing affordable housing stock, in particular co-operatives and social housing run by non-profits, as well as to upgrade and preserve private rental stock.
- Integrating affordable housing into higher-density, zero-carbon, complete communities, through tools such as inclusionary zoning.
- Cooling the external/speculative demand for Vancouver real estate, but ensuring that this is not done in a xenophobic manner.
- Establishing a progressive property taxation framework to more fairly treat renters and owners, reduce wealth inequality, and raise revenues to support these efforts.

These ideas could be approached independently, but there is an underlying connection and logic to the five areas. The next sections summarize recent data and research about what's happening in the Metro Vancouver housing market: factors driving increased demand; changes in the supply of housing; and how this has affected different groups of people, in particular owners and renters.

Our own history and the experiences of other jurisdictions teach us that market forces alone are not sufficient to address affordability.

3 Future of Public Housing Project, *Public Housing Stock as Percentage of Total Stock in Selected Countries* (map), <http://www.futureofpublichousing.ca/wp-content/uploads/2014/09/A2-Public-Housing-Stock-percentage.jpg>.

What is Affordable Housing?

Housing affordability is generally defined in terms of income. For renters, a conventional definition is that the cost of housing should not exceed 30 per cent of gross income. Above this amount, households are considered to be in “core housing need,” while those spending more than half their income on housing are in “severe housing need.” These cut-offs, while commonly used, are ultimately arbitrary and not empirically derived.⁴ Households with high incomes obviously have many more options at 30 per cent of income than those with low incomes. Indeed, the poorest generally earn too little to afford decent accommodation and require some form of income or housing subsidy.

The broader topic of housing affordability is thus intimately connected to the widening gap between income and wealth in society. In this report, we look at this challenge from a number of angles. A comprehensive consideration would include policies that boost incomes among the poorest, including living wage policies, collective bargaining rights and income transfers (the shelter component of social assistance). Moreover, casting housing primarily as a market ignores other conceptions, in particular that *housing is a human right* whose neglect has adverse impacts on marginalized communities. This right is cited in two United Nations documents: Article 25 of the Universal Declaration of Human Rights and Article 11 of the International Covenant on Economic, Social and Cultural Rights. Canada is a signatory to both.

In recent years, many lower-income households, such as those on welfare, have started to get priced out of the few new “affordable” units being built. Even deplorable rooms in single room occupancy hotels (SROs) now rent for more than the monthly welfare shelter allowance of \$375 for a single person. To be eligible for subsidized housing in BC, gross annual household income must be below certain housing income limits (HILs), defined by BC Housing as “the income required to pay the average market rent for an appropriately sized unit in the private market.” HILs vary by unit size and location: they range from \$36,500 for a bachelor to \$62,000 for a four-bedroom in Vancouver.⁵ Rents based on maximum HILs may meet only a technical definition of affordability.

Housing affordability also applies to the potential to own housing over the course of a career. That is, someone working full-time, full-year should be able to save for a down payment and make reasonable mortgage payments over the following 25 years or less. *Democratization of access to property ownership* should be part of the housing conversation. While affordable rental stock is part of a spectrum of housing options in a solutions framework, we should not give up on affordable home ownership. Someone has to own the housing in which people live, so to the extent possible it should be those who live and work in the area, rather than investor-owners like pension funds, hedge funds or corporations.

4 For a useful discussion of affordability measures and alternatives, see L. Croll, “Rethinking Shelter-Cost-to-Income Ratios in Housing Allowances” (MPP thesis, Simon Fraser University, 2015), <http://summit.sfu.ca/item/15376>.

5 BC Housing, “Income Requirements,” http://www.bchousing.org/Options/Subsidized_Housing/Apply/Eligibility/Income_requirements#sthash.gllMkX9C.dpuf.

What's driving housing price inflation in Vancouver?

MOST OF THE HEADLINES ABOUT HOUSING AFFORDABILITY have to do with the price of residential real estate, and in particular the detached, single-family home. As the market has soared, we have seen a growing disconnect between average incomes and home prices, putting that idealized single-family home well out of reach for most households.

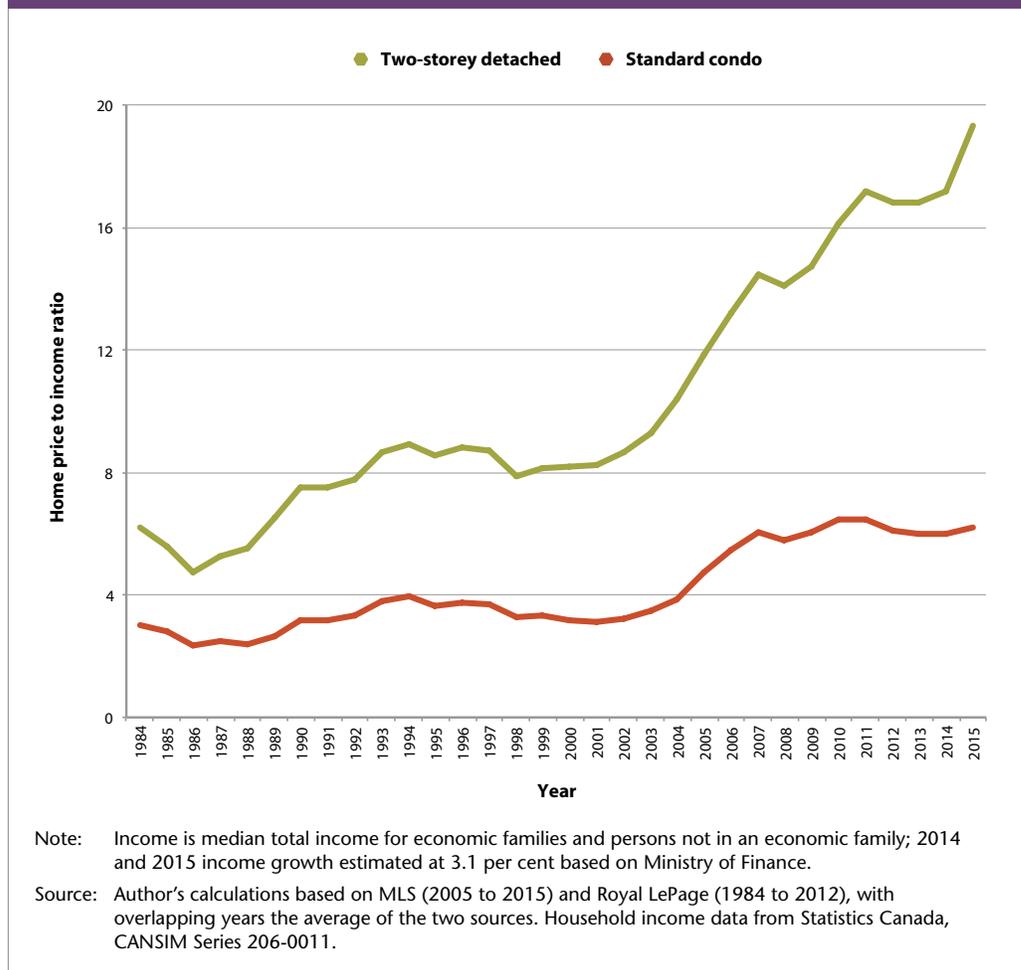
Figure 1 shows the benchmark sale price for a standard condo and two-storey detached house (single-family home) as ratios to median household income.⁶ Between 1984 and 2000, the sale price of a standard condo relative to income was fairly stable, around 3.2 times average income. Prices for a detached house averaged 7.3 times income over the same period, and were relatively flat through the 1990s. In recent years, the surge in the ratio for a detached house is striking, jumping up to more than 19 times income in 2015. The ratio for standard condos has gone up somewhat less relative to income, to more than six times income, and it has been more stable in recent years.

Upward pressure on Metro Vancouver housing prices is often explained in terms of supply and demand, but the reality is more complex. There is limited land available for development due to geographical constraints: mountains, ocean, Agricultural Land Reserve and the United States border. The headlines typically emphasize prices in the City of Vancouver's more expensive neighbourhoods, rather than the differences across the region. While central Vancouver is very expensive, farther away from the centre are other more (relatively) affordable options. To some

We have seen a growing disconnect between average incomes and home prices, putting that idealized single-family home well out of reach for most households.

⁶ Benchmarks are for a typical property as assessed by the real estate industry. This is not an average, as it does not include the high end of the market.

Figure 1: Home price to income ratio, Metro Vancouver, 1984-2015



Over the past two decades there has been no net construction of single-family homes.

extent this may be a false economy, trading lower housing costs for higher auto dependence and transportation costs, particularly if those latter costs are amortized over 25 to 30 years.⁷

Another supply factor is that over the past two decades there has been no net construction of single-family homes: after a period of growth in single-family homes from 1991 to 2001, numbers have been shrinking since then (Figure 2).⁸ All of the net growth in dwelling units has come in more dense forms: attached housing,⁹ and mid-rise and high-rise buildings. This trend is a function of limited space, which makes higher-density developments more profitable for

7 BTAworks, "The 2015 \$1 million Line for Single Family Residential Properties in Metro Vancouver," September 15, 2015, <http://www.btaworks.com/2015/09/15/the-2015-1-million-line-for-single-family-residential-properties-in-metro-vancouver/>, based on Metro Vancouver, *The Metro Vancouver Housing and Transportation Cost Burden Study: A New Way of Looking at Affordability*, 2015, <http://www.metrovancouver.org/services/regional-planning/PlanningPublications/HousingAndTransportCostBurdenReport2015.pdf>.

8 Author's estimates based on Canada Mortgage and Housing Corporation (CMHC), *Occupied Housing Stock by Structure Type and Tenure*, Vancouver, 1991–2011.

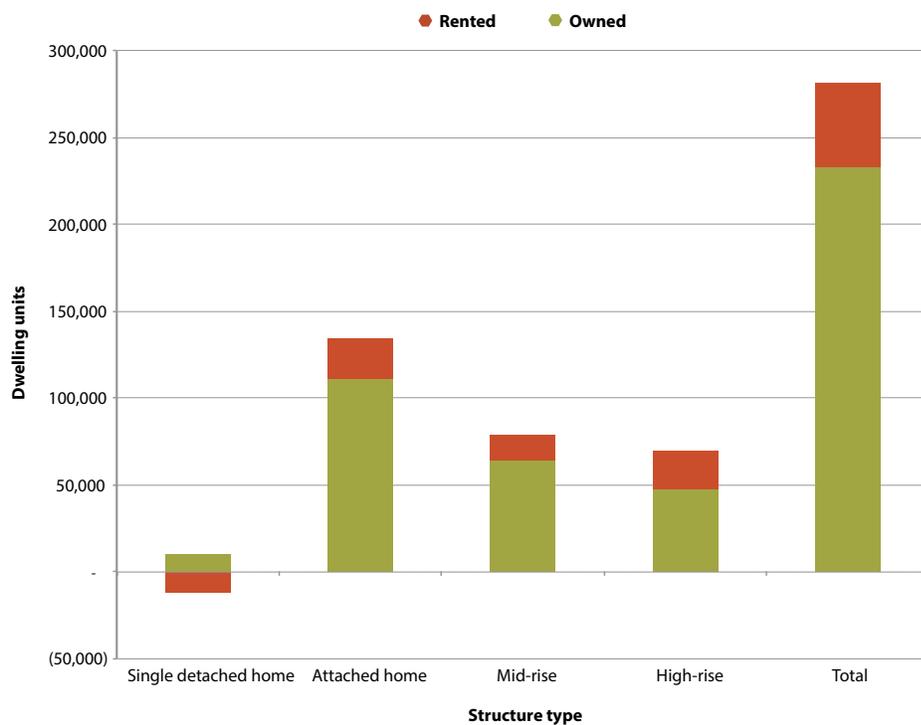
9 "Attached" groups a number of similar building forms together: semi-detached house, row house, apartment detached duplex and other attached single-family house. Mid-rise includes apartment buildings with fewer than five storeys; high-rise, buildings with five or more storeys. Another category of "movable dwellings" accounts for well under 1 per cent of the total and has been removed from the analysis. These numbers mask the redevelopment of older single-family homes into new ones, but such investments do not increase the total supply of housing.

developers and smaller units that share land more affordable for buyers. In 1991, half of all homes in the region were single-family homes; by 2011, that number fell to one-third.¹⁰

A number of mutually reinforcing factors are driving the demand for housing in Vancouver:

A GROWING POPULATION: Going back to 2001, Metro Vancouver’s population has grown by more than 420,000 people to 2.5 million. The recent population growth rate of 1.4 per cent per year is anticipated to continue over the next couple of decades. The bulk of this population growth is due to international immigration: between 2001 and 2014, 348,000 people moved to Vancouver from abroad compared to less than 20,000 people from other parts of Canada.¹¹

Figure 2: Change in Metro Vancouver CMA housing stock by structure type and tenure, 1991–2011



Note: Attached home includes CMHC categories of semi-detached house, row house, apartment detached duplex and other single attached house. Mid-rise is an apartment with fewer than five stories, and high-rise is an apartment with five or more stories.

Source: Author’s calculations based on Canada Mortgage and Housing Corporation (CMHC), *Occupied Housing Stock by Structure Type and Tenure, Vancouver, 1991–2011*.

10 It is not clear how secondary suites fit into this categorization. Arguably many single-family homes have “mortgage-helper” suites, but they may be undercounted.

11 These are net immigration numbers. Other key demographics include a net loss of more than 56,000 people from Metro Vancouver to other parts of BC, and a growing number of non-permanent residents, such as students. BC Stats, “Mobility,” <http://www.bcstats.gov.bc.ca/StatisticsBySubject/Demography/Mobility.aspx>. Net births and deaths are also a positive contributor; data are only available for BC as a whole and show natural changes to be about 23 per cent of the total population increase for BC going back to 2001–2002. See: BC Stats, “Vital Statistics,” <http://www.bcstats.gov.bc.ca/StatisticsBySubject/Demography/VitalStatistics.aspx>.

LOW INTEREST RATES, RISING HOUSEHOLD DEBT: Since 2001, low interest rates have been in place, largely to stimulate the economy in the aftermath of financial crises and economic downturns. These low rates mean that households can take on a larger mortgage, due to lower monthly payments, and have fed record levels of household debt. A 2015 study by the Canadian Centre for Policy Alternatives (CCPA) found that many young homeowners are vulnerable to a housing market correction due to high mortgage debt.¹² This finding was reinforced by a Bank of Canada study, which found that the share of highly indebted Canadian households (those with a debt of more than 350 per cent of their income) grew from 4 per cent between 2005 and 2007 to 8 percent between 2012 and 2014. These households are predominantly younger and low- to middle-income groups.

INTERGENERATIONAL TRANSFERS: People who already own property have seen massive gains in the value of their homes (more on this in the next section), and these gains have made it harder for those starting out to buy in the first place. One important consequence is that many parents want to transfer these real estate windfalls to their children, to serve as the “bank of mom and dad,” so these younger people can get into the housing market. The Society of Notaries Public of British Columbia notes that 57 per cent of first-time buyers had parental help to purchase property. They further report that 70 per cent of those parents are gifting, rather than loaning, the money to their children.¹³

Local buyers are competing with tremendous wealth from outside the region.

EXTERNAL CAPITAL FLOWS: Growing evidence shows that the world’s super rich are parking their wealth in real estate in gateway cities like London, New York and Hong Kong.¹⁴ This external capital is suspected to be the “dark matter” behind the spectacular real estate price increases in the high end of Vancouver’s market. With global investors, the danger is that potential demand for new housing stock is, for all intents and purposes, infinite. Local buyers are not just competing with each other for real estate but with tremendous wealth from outside the region.

Much of the recent media attention has focused on capital flows (and capital flight) from Mainland Chinese investors into Vancouver real estate. Some observers are concerned about the potentially racist overtones of isolating one group of investors, many of whom may be legitimate Canadian citizens or immigrants. The problem is not so much the specific nationality at play, but capital writ large. In London, concerns are primarily directed at Russian and Saudi investors; in Miami, the challenge is Latin American wealth driving up local real estate. The challenge in Vancouver would be no different if it were caused by wealth from Alberta, Ontario or the United States.

The more fundamental issue is that housing is being treated primarily as an investment property rather than as a place to live. These external capital flows destabilize local real estate markets, making it impossible for many households to ever become homeowners. Some people have argued that the impact is isolated to pockets of high-end single-family housing (mainly on Vancouver’s west side) and has little effect on the larger Metro housing market. But such a view fails to appreciate the ripple effect of escalating housing prices. People who sell their property on the west side move elsewhere in the region and pocket the difference. As well, children who grew up on the west side cannot afford to buy there and also move to other parts of the region. There

12 D. Macdonald, *The Young and the Leveraged: Assessing the Impact of a Housing Market Correction on Canada’s Homeowners* (Ottawa: CCPA, 2015), <https://www.policyalternatives.ca/publications/reports/young-and-leveraged>.

13 Society of Notaries Public of British Columbia, *Many First-Time Buyers Getting Help from Mom and Dad*, December 9, 2015, <http://www.notaries.bc.ca/resources/showContent.rails?resourceId=18300>.

14 Knight Frank Research, *The Wealth Report 2016* (March 2016), <http://content.knightfrank.com/research/83/documents/en/wealth-report-2016-3579.pdf>; Sotheby’s International Realty, *Wealth-X: The Global Luxury Residential Real Estate Report 2015*, <http://www.wealthx.com/wp-content/uploads/2015/02/Wealth-X-Sothebys-Global-Luxury-Residential-Real-Estate-Report-2015.pdf>.

is good reason to believe they are behind the gentrification, and rising rents, in neighbourhoods not actively targeted by the wealthy. It has been appropriately noted that we do not have comprehensive data to assess these dynamics in detail, but the evidence we do have suggests cause for concern.

The movement of capital out of China is real: analysts Knight Frank Research in the United Kingdom estimate that Chinese investment in real estate outside of China was US\$30 billion in 2015, nearly double the number from 2014. In 2009, this investment was only \$0.6 billion.¹⁵ Recent evidence suggests that capital flowing from Mainland China is adversely affecting Vancouver's real estate market and is more acute in specific neighbourhoods and with respect to particular property types:

- A Society of Notaries Public of British Columbia survey reported that 7 per cent of 2015 transactions in Metro Vancouver represented foreign buyers.¹⁶
- A study by urban planner Andy Yan looked at a sample of real estate transactions on the west side of Vancouver—some of the most expensive single-family housing in the city—and found a high percentage of purchases with non-Anglicized Chinese names and also many homes registered to homemaker/housewives and students (meaning, as proxies for someone of greater means).¹⁷ Yan himself acknowledges that this methodology is imperfect and may include many buyers who are permanent residents and citizens.
- A widely reported analysis from Landcor found that 74 per cent of luxury home purchases on Vancouver's west side and in Richmond in 2010 were made by Mainland Chinese buyers (or, at least by people with mainland-style names without any variants that use Cantonese or English spelling).¹⁸
- The Macdonald Real Estate group analyzed 1,500 of its 2014 real estate transactions. It found that 70 per cent of its buyers of properties above three million dollars were to Chinese buyers. For sales between one and three million dollars, 21 per cent were Chinese, and 11 per cent for those under one million dollars. Overall, 16 per cent of transactions involved buyers from Mainland China (62 per cent condos or attached structures, 38 per cent detached homes). These results require a cautionary lens, however, as the company notes that most buyers were in some phase of the immigration process.¹⁹

15 D. Ji, *Chinese Outbound Real Estate Investment: New Waves, New Destinations* (London: Knight Frank Research, February 2016), <http://www.knightfrankblog.com/global-briefing/in-focus/chinese-outbound-real-estate-investment-new-waves-new-destinations/>. This estimate may be on the low end: the National Association of Realtors estimate Chinese real estate investment in the US alone to be \$28.5 billion for the year ending March 31, 2015, and with a focus on the West Coast. 2015 Profile of Home Buying Activity of International Clients for the Twelve Month Period Ending March 2015, published June 2015, <http://www.realtor.org/sites/default/files/reports/2015/2015-profile-of-international-home-buying-activity-2015-06-18.pdf>.

16 Society of Notaries Public of British Columbia, *January 2016 BC Notaries Real Estate Report—Foreign Buyers*, <http://www.notaries.bc.ca/resources/showContent.rails?resourceId=18368>.

17 A. Yan, "Ownership Patterns of Single Family Home Sales on Selected West Side Neighborhoods in the City of Vancouver: A Case Study" BTaworks, November 2015, <http://www.btaworks.com/2015/11/02/ownership-patterns-of-single-family-home-sales-on-selected-west-side-neighborhoods-in-the-city-of-vancouver-a-case-study/>.

18 Landcor Data Corporation, British Columbia Q1 2011: *Residential Sales Summary* (no longer available online), cited in K. Sun, *Foreign Investment in Real Estate in Canada: Key Issues*, China Institute, University of Alberta, Occasional Paper Series 2, no. 3 (August 2015), http://www.china.ualberta.ca/~media/China%20Institute/Documents/Publication/Occasional%20Paper/RealEstate_KerrySun_201508_web.pdf.

19 Business News Network, "What we know about foreign ownership in Vancouver so far," interview with Jonathan Cooper, Macdonald Real Estate Group, November 13, 2015, <http://www.bnn.ca/Video/player.aspx?vid=749790>.

The relationship between immigration, external capital and local real estate markets is not straightforward, and it no longer perpetuates the stereotype of immigrants settling in Canada and making a place for themselves. David Ley, a professor of geography at the University of British Columbia (UBC), has documented this intersection. He notes that Chinese investors have been actively courted to Canada going back to the early 1980s, most notably through the federal Business Immigration Program. This recruitment effort, which has a focus on Vancouver, brought an estimated “wealth migration” of 200,000 immigrants to Vancouver between 1980 and 2012.²⁰ Some Chinese immigrants use Canadian citizenship as a form of “passport insurance” against potentially adverse political changes even while they continue to conduct business in Asia. The high quality of life and educational opportunities for their children in Canada are also attractive to immigrants.

The recent decline in the value of the Canadian dollar makes Vancouver real estate an even more attractive investment option.

In addition to immigration, linkages between Vancouver real estate markets and offshore buyers have increased, particularly with regard to the high end of the market. Concerns are high that vacant homes owned by investors are fundamentally changing the character of neighbourhoods.²¹ A study by the Canada Mortgage and Housing Corporation (CMHC) found that 6 per cent of condos built in Metro Vancouver since 2010 were purchased by foreign investors (i.e., not by immigrants but by people who do not reside in Canada).²² In March 2016, the City of Vancouver released a study based on BC Hydro data estimating that a total of 10,800 units were empty homes (i.e., held as investment properties). This represents just under 5 per cent of the total homes covered, and that rate has been fairly stable since 2002. Of these, the vast majority (90 per cent) were condos.²³ This estimate may be slightly low, however, as the study did not count houses that were “lightly occupied” for just a few weeks or months per year, did not count newly constructed units in 2014 or 2015, and may average out higher vacancies from certain “hot spot” neighbourhoods (like Point Grey) across broader regions (“Northwest Vancouver”).²⁴

Events like the early 2016 crash in the Chinese stock market, and concerns about devaluation of the yuan, may drive more capital into real estate markets like Vancouver’s. The recent decline in the value of the Canadian dollar also makes Vancouver real estate an even more attractive investment option. The Chinese government is now actively seeking to prevent this outflow of money from inside its borders (capital flight), which was estimated at between US\$770 billion and \$1 trillion in 2015. People have found many creative ways to skirt the maximum \$50,000 per person that can be removed legally.²⁵

In spite of new efforts by the Chinese government to stem the flow of money from the country, it is not clear how much of an impact this will have for Vancouver real estate. The sheer size of the Chinese economy, combined with growing trade and investment ties and a demand to get

20 D. Ley, “Global China and the making of Vancouver’s residential property market” in *International Journal of Housing Policy* (December 2015), doi: 10.1080/14616718.2015.1119776.

21 K. Tomlinson, “Vancouver house-buying frenzy leaves half-empty neighbourhoods” in *The Globe and Mail*, October 30, 2015, <http://www.theglobeandmail.com/news/british-columbia/vancouver-house-buying-frenzy-leaves-half-empty-neighbourhoods/article27056534/>.

22 CMHC, *Foreign Ownership of Condominiums in Canada Based on Year of Completion* (April 2016), http://www.cmhcschl.gc.ca/odpub/esub/68469/68469_2016_M04.pdf?fr=1460132906355&sid=rRljK4M00bqt19FPTTQ2KO1JVPaQQUS74pYMBx2AYoiKbMp6sPRwrkel5jN8taRu.

23 Ecotagious Inc, *Stability in Vancouver’s Housing Unit Occupancy: Analysis of Housing Occupancy in the City of Vancouver Using Electricity Meter Data Analytics*, prepared for the Vancouver Affordable Housing Agency, February 2016, <http://council.vancouver.ca/20160308/documents/rr1EcotagiousReport.pdf>.

24 A good discussion of methodology and potential shortcomings available from F. Bula, “Did the city’s report this week on empty homes bust a myth?,” *State of Vancouver* (blog), March 12, 2016, <http://www.francesbula.com/uncategorized/did-the-citys-report-this-week-on-empty-homes-bust-a-myth/>.

25 W. Gu and C-W. Yap, “China, Fighting Money Exodus, Squeezes Business,” *The Wall Street Journal*, March 8, 2016, <http://www.wsj.com/articles/china-fighting-money-exodus-squeezes-business-1457475908>.

cash out to safe havens, suggest that a range of legal and illegal means may continue to affect the housing market. Such investors may not necessarily be driven by speculation in the classic sense of flipping properties but by hedging against potential losses elsewhere, competing for status and providing a base for their children to get an education and learn English.²⁶ Even if property values fall substantially, it may be perceived as better than losing everything back home.

However, the role of short-term speculative investment and greater risk-taking in Vancouver's hot real estate market is a more recent issue (one that arises in markets where prices are rising rapidly). The "shadow flipping" scandal involving real estate agents, which was uncovered in 2016, highlights these concerns.²⁷ Overall, short-term speculative investment (less than 12 months) appears to be a small but growing portion of sales, with one investigation finding more of this activity in East Vancouver, which represents 7 to 10 per cent of sales.²⁸

Another concern is that Vancouver's housing market is a bubble. An external shock that undermines incomes or a rise in interest rates could lead to a portion of households being unable to service their mortgage debt. A Bank of Canada assessment in late 2014 concluded that Canadian housing prices (led by Vancouver and Toronto) are overvalued by 10 to 30 per cent, and over-leveraged households represent a key risk to the financial system.²⁹ A series of federal efforts to tighten up mortgage insurance rules is an indicator of this concern, though widely viewed as having had only marginal impact.

Minimally, Vancouver's housing market is vulnerable to an economic downturn or other external shock, which would have recessionary impacts. Over the past decade, BC has consistently invested more than 8 per cent of its income (Gross Domestic Product, or GDP) in residential construction, and in some years (like 2007) almost 10 per cent. Between 1981 and 2012, the lowest that figure ever got was 5 per cent of GDP. To put that in dollar terms, BC invested \$21 billion in residential construction in 2014.

The rise of speculative activity, the treatment of housing as an investment commodity and the prospect of a housing bust all underline the need for more rational planning and management of housing. In contrast, a public program to build the housing that local people need represents an alternative way to maintain high levels of employment in the construction sector.

Vancouver's housing market is vulnerable to an economic downturn or other external shock, which would have recessionary impacts.

26 J. Dorfman, "New Wealth Seeks a 'Home': The Rise of the Hedge City," *Harvard International Review* 36, no. 3 (April 15, 2015), <http://hir.harvard.edu/new-wealth-seeks-a-home-the-rise-of-the-hedge-city/>.

27 At the time of writing, the BC government has announced its intention to close the loophole of "shadow flipping" of real estate transactions. This practice was originally uncovered and reported by K. Tomlinson, "The real estate technique fuelling Vancouver's housing market," *The Globe and Mail*, February 6, 2016, <http://www.theglobeandmail.com/news/investigations/the-real-estate-technique-fuelling-vancouvers-housing-market/article28634868/>.

28 Research by Landcor, based on BC Assessment data, reported by L. Cuthbert, "Special Report: Flipping on the rise, but still a small portion of sales," *The Vancouver Sun*, March 17, 2016, http://www.vancouversun.com/business/real-estate/special+report+flipping+rise+still+small+portion/11795194/story.html?_lsa=98de-172d.

29 Bank of Canada, *Financial System Review – December 2014*, <http://www.bankofcanada.ca/wp-content/uploads/2014/12/fsr-december2014.pdf>.

Who are the winners and losers in the housing market?

Home ownership is the principal source of wealth for a wide range of households, and public policy provides incentives that encourage this.

THE PREDOMINANT VIEW OF HOUSING AS A FREE MARKET neglects the wide range of government policies, laws and regulations that affect access to and ownership of housing. David Hulchanski, a professor of housing and community development at the University of Toronto, argues that we should think less of a housing *market* and more about a *housing system*, in which governments play a central role: “It establishes and enforces the ‘rules of the game’ through legislation defining everything from banking and mortgage lending practices to tax and regulatory measures affecting building materials, professional practices (e.g., real estate transactions), subsidy programs, and incentive patterns for average households.”³⁰

Many of these features are taken for granted but they have significant implications for equity and fairness. Home ownership is the principal source of wealth for a wide range of households, and public policy provides incentives that encourage this. In North America, we tend to equate housing with home ownership, and debates about affordable housing often revolve around the question of ensuring an adequate supply of housing that can be affordably *purchased*. Yet, 34 per cent of households in Metro Vancouver were renters in 2010 (and as many as 51 per cent in the City of Vancouver). Of these renter households, 15 per cent rent social housing (either housing that is owned by the state or non-profits or that is run as a co-operative).³¹

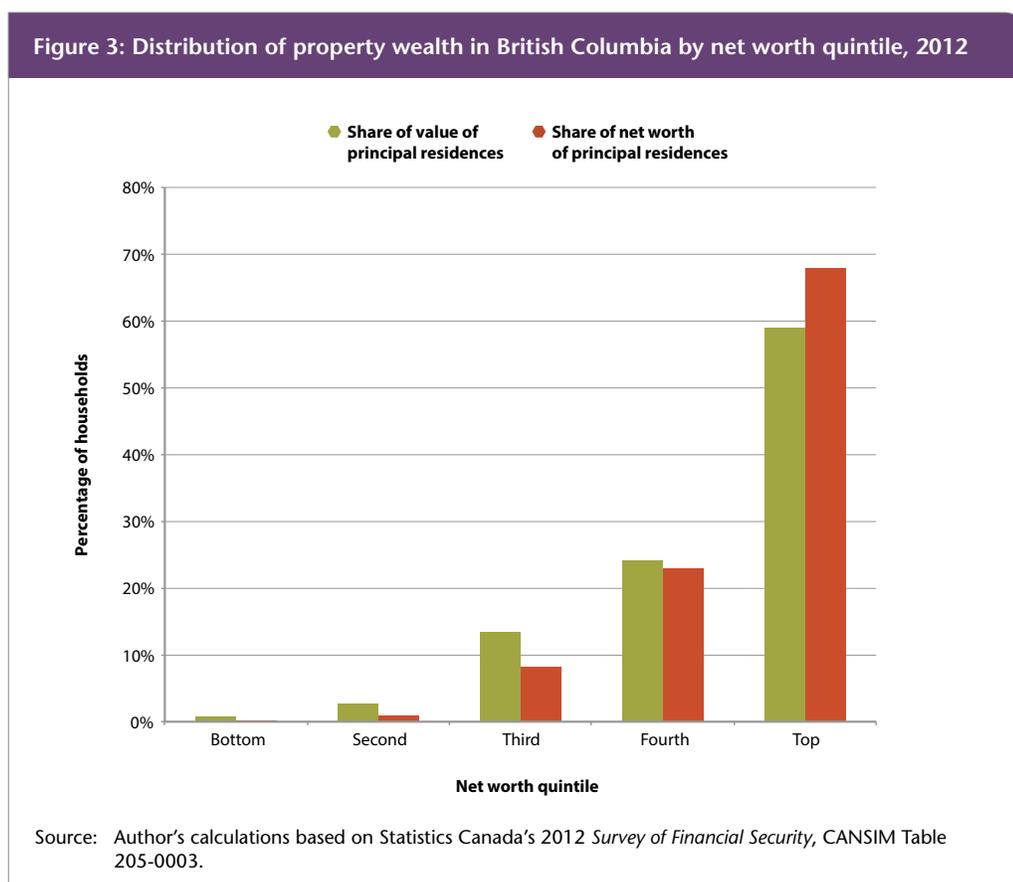
30 D. Hulchanski, “What Factors Shape Canadian Housing Policy? The Intergovernmental Role in Canada’s Housing System” in Canada: *The State of the Federation 2004: Municipal-Federal-Provincial Relations in Canada*, ed Robert Young and Christian Leuprecht (Montreal and Kingston: McGill-Queen’s University Press, 2006), <http://www.ppm-ppm.ca/SOTFS/Hulchanski.pdf>.

31 *Metro Vancouver Housing Data Book* (November 2015), http://www.metrovancouver.org/services/regional-planning/PlanningPublications/MV_Housing_Data_Book.pdf.

If anything, it is homeowners, not renters, who are subsidized by governments. Important inequities in the way property is taxed—such as the fact that the sale of a principal residence is not subject to capital gains tax, meaning windfall gains from rising housing prices go untaxed—favour owners. A study of these comparative subsidies and tax expenditures in Ontario found that 94 per cent of the fiscal benefit of housing policy goes to homeowners (mostly through non-taxation of income related to owner-occupied housing, plus home renovation tax credits), rather than to renters.³²

WINDFALL GAINS FOR HOMEOWNERS

Wealth from owning a home is much less concentrated than wealth from owning financial assets (stocks, bonds) but it is still very unequal. Figure 3 shows data for BC as a whole from Statistics Canada’s 2012 *Survey of Financial Security*. The top 20 per cent of BC households (ranked by net worth) owned 59 per cent of the value of principal residences, and the next 20 per cent owned an additional 24 percent. When these numbers are adjusted for mortgage debt, the net worth



32 For homeowners, the key tax expenditures are the non-taxation of capital gains and imputed rental income from owner-occupied housing. It is estimated that 93 per cent of the total federal benefit of this expenditure is to homeowners, and 7 per cent to renters, for 2009, although this includes the temporary Home Renovation Tax Credit. If we remove the latter, the benefit is 75 per cent to homeowners. Estimates for the Ontario government were 95 per cent, and for the municipal government were 100 per cent, in favour of homeowners. F. Clayton, *Government Subsidies to Homeowners versus Renters in Ontario and Canada*, prepared for Federation of Rental-Housing Providers of Ontario and Canadian Federation of Apartment Associations, August 30, 2010, http://www.cfaa-fcapi.org/pd2/CFAA_FRPO_Govt_Sub.pdf.

associated with principal residences is more unequal. The top quintile accounted for 68 per cent of the wealth, and the next quintile for 23 per cent.

These top two quintiles also owned the most valuable secondary residences or cabins, an asset category known as “other real estate.” The top 20 per cent owned 82 per cent of the total asset value, and the next 20 per cent another 12 per cent (not shown). Median values were \$461,000 for the top 20 per cent and \$300,000 for the next 20 per cent.

Surging housing prices have further widened the gap between rich and poor, between those who own their homes and those who rent.

It is thus not surprising that surging housing prices have further widened the gap between rich and poor, between those who own their homes and those who rent. Comparing data to the 1999 *Survey of Financial Security* gives us an idea of how much windfall capital gains benefit those at the top of the distribution. Between 1999 and 2012, the total value of principal residences for BC as a whole rose from \$278 billion to \$654 billion, an increase of 135 per cent.³³ Within the top quintile, the average gain was \$339,500 per household; for the next quintile, the average gain was \$205,300 per household (increases of 83 per cent and 85 per cent respectively). Needless to say, the lower quintiles realized no such gains, thus the rise in real estate values has driven much of the growing wealth gap. And as troubling as *income* inequality is to many (and the focus of most debates on inequality), *wealth* inequality is much more significant.

If data were available just for Vancouver, the growth in real estate wealth would be much higher—and higher still if we consider price increases between 2012 and 2016. The gains among the wealthiest are therefore compounded, whereas those without a stake in the real estate market gain nothing and remain even farther behind. Most of the change in fortunes arising from real estate is due to pure luck rather than to skill or effort, making these financial gains more like lottery winnings. And unlike gains earned through work or sales of financial assets (albeit only half of such capital gains are subject to income tax), the capital gains on principal residences are not taxable.

For many people these property wealth gains only exist on paper, to be realized should they sell their home. Still, they constitute a “wealth effect” in which inflated asset values underpin higher levels of consumption. Moreover, the increase in paper wealth means that homeowners can borrow against that equity, thus providing a higher level of economic security against bad times.

Table 1 shows estimates of home equity and total net worth for renters, owners with a mortgage and owners without a mortgage. Owners without a mortgage are in the best position, as their annual housing costs are very low, limited to property taxes and maintenance (all households pay utilities, so we can ignore those). Owners with a mortgage also pay interest, whereas payments on the principal are “putting money in your own pocket.” Renters do not accumulate any equity in housing, and their net worth is linked to owning other assets, including registered retirement savings plans (RRSPs) and future pension entitlements.

³³ These values are after inflation, in 2012 constant dollars. Note that this total includes growth in population and the total number of structures. Source: Statistics Canada, CANSIM Table 205-0003.

Table 1: Home equity and net worth by tenure, BC, 2012

	Renters		Owners with a mortgage		Owners without a mortgage	
	Median	Average	Median	Average	Median	Average
Home equity	-	-	\$210,000	\$300,000	\$425,000	\$532,000
Household net worth	\$21,000	\$139,000	\$511,000	\$790,000	\$990,000	\$1,343,000

Source: CMHC, http://www.cmhc-schl.gc.ca/en/hoficincl/homain/stda/data/upload/table_23_homeequity_net_worth_canada_provinces_en_w.xls.

IMPACTS ON THE RENTAL MARKET

High sale prices for homes have a knock-on effect in the rental market, keeping tenants in rental housing longer and pushing down vacancy rates. While a healthy vacancy rate is around 3 to 4 per cent, CMHC reports 2015 vacancy rates for purpose-built rental apartments at 0.8 per cent in Metro Vancouver (down from 1 per cent in 2014, and marking the first time the rate has fallen below 1 per cent since 2008). Conditions were even tighter (0.6 per cent) in the City of Vancouver proper. Between 2010 and 2014, rent increased in typical one- and two-bedroom apartments by 3.3 per cent per year, compared to overall inflation of 1.3 per cent. Average rent in Metro Vancouver jumped to \$1,144 in 2015, up 4.3 per cent over the previous year.³⁴

A core problem with BC's Residential Tenancy Act is that provincial rent controls are tied to the tenant, not the unit. Provincial legislation limits the amount landlords can raise rents to a maximum of two percentage points per year above the rate of inflation (which itself means rents escalate faster than many people's incomes). However, rents on vacated units can be increased without constraint, which creates an incentive for landlords to turn over tenants. Landlords can legally use a loophole, by specifying "fixed-term" leases in which tenants agree to vacate at the end of the term. There are widespread cases of renters being displaced on the grounds that the landlord will be occupying the space or needs to renovate. This is a particular challenge in the secondary rental market of suites and condos, as opposed to purpose-built rentals.

The end of major federal (in 1993) and provincial (in 2002) programs to build new non-market or social housing units is particularly notable.³⁵ These units make up a small (about 15 per cent) but important share of the existing rental housing stock. Federal and provincial governments have also provided operating subsidies to cover mortgage payments (the largest expenditure) for social housing. These operating subsidies are being phased out, even as aging buildings that are part of the existing social housing stock need upgrades and maintenance. The 2016 federal budget's new expenditures in support of affordable housing have started to address this issue.

In addition, federal tax incentives for purpose-built rental construction were eliminated in the 1970s and early 1980s, largely to close loopholes that enabled investments in rental housing to

Rents on vacated units can be increased without constraint, which creates an incentive for landlords to turn over tenants.

34 These statistics are for purpose-built rentals only. CMHC, *Rental Market Report: Vancouver and Abbotsford-Mission CMAs* (Fall 2015), http://www.cmhc-schl.gc.ca/odpub/esub/64467/64467_2015_A01.pdf?fr=1453828317938.

35 Some federal-led efforts in the 2000s did revive a role for building new social housing, but the numbers were very small and targeted to specific marginalized groups.

serve as tax shelters for high-income professionals.³⁶ In the intervening decades, it has been more profitable for developers to build condos instead of purpose-built rental units. That said, many condo units are now rented out, and in 2015, the number of rented condos jumped by 4,975.³⁷ Typically condos command higher rents than purpose-built rentals (an average of \$277 more per month in 2015), which are justified as being associated with newer units with better amenities).

In the absence of federal and provincial government support for new subsidized rental units, municipalities and the regional government have used the (albeit more limited) tools at their disposal to encourage new affordable rental stock. Metro Vancouver's *Regional Affordable Housing Strategy Update* in August 2015 cites initiatives around the region to increase the supply of affordable housing by changing zoning, permitting secondary suites, reducing parking requirements, offering municipally owned land, providing grants, waiving permit fees and granting additional density.

New social housing units may exclude the people who need that housing the most, as the official income limit is much higher than their actual income.

More recent data on housing starts show a modest shift back to rental properties, largely due to these municipal efforts, with about 3,200 rental units started in each of 2013 and 2014 compared to 500 to 800 units per year in the mid-2000s. This increase demonstrates that it is not impossible to build new rental housing, though in the absence of operating subsidies the resulting rents for the new units may still be unaffordable for most low-income households. It raises a caution flag that new social housing units may exclude the poorest people who need that housing the most, as the official housing income limit is much higher than their actual income. If maximum rent is 30 per cent of HIL, which translates into \$912 per month for a bachelor and \$1,562 for a four-bedroom, these amounts far exceed welfare incomes.

In addition, the Province of BC and the City of Vancouver have purchased some SROs and other hotels as a means of preserving the existing stock of very low-income rental housing. Further converting most of these units into supportive housing for those with mental health and addiction challenges on top of their low incomes has been a welcome development. Nevertheless, a 2015 survey of Downtown Eastside SROs found the rents steadily rising (amid stagnant welfare incomes) and many of these SRO rooms being lost. More efforts are needed to buy or lease SRO hotels, refurbish them and place them under non-profit or public management to ensure that the poorest people are not displaced.³⁸

Local governments insist that federal and provincial government funding is much needed to address the affordability challenge, in particular upfront capital costs to build new affordable housing stock, and also an ongoing operating subsidy to bridge the gap between low incomes and the cost of adequate housing.

Amid rising unaffordability, concerns have arisen about the additional pressure on rental markets in the form of Airbnb and similar services that offer short-term housing rentals. Analysis of Airbnb, for example, put total listings in Metro Vancouver at 4,628 in June 2015, with almost three-quarters of these in the City of Vancouver.³⁹ Some two-thirds of the listings are for "entire

36 M. Steele, "A Tax-Based Affordable Housing Program for Canada," *Canadian Housing* (Fall 2006): 31–38, <http://www.uoguelph.ca/~msteele1/CanHsgIhtc.pdf>.

37 CMHC, *Secondary Market Report*, http://www.cmhc-schl.gc.ca/en/hoficlincl/homain/stda/data/upload/Table14_EN_w-2.xls. These data are generally considered to be of poorer quality.

38 J. Swanson, K. Chan and M. Wallstam, *Our Homes Can't Wait: Carnegie Community Action Project's 2015 Hotel Survey and Housing Report*, <https://ccapvancouver.files.wordpress.com/2008/11/2015hotelreport.pdf>.

39 Graduate research by K. Sawatzky, "Airbnb listings in Vancouver: How many? What type? Where?," *Short-Term Consequences* (blog), June 20, 2015, <https://shorttermconsequences.wordpress.com/2015/06/20/airbnb-listings-in-vancouver-how-many-what-type-where/>.

home/apartment,” the category most likely to displace long-term rentals, as opposed to private or shared rooms.

However, it is not clear how many of these are dedicated Airbnb rentals rather than listings to fill temporary absences by the principal occupants. More study is needed on this issue, particularly looking at owners with multiple listings who are not casually renting out their home but acting more like hotel operators. The total number of these rentals is relatively small compared to the one million homes that exist in Metro Vancouver. Nonetheless, in the context of a very tight rental market, Airbnb and similar services are likely diverting part of the longer-term rental stock and making the affordability challenge worse.

THE HOUSING MARKET IS FAILING MANY HOUSEHOLDS

CMHC measures “core housing need,” the share of the population living in housing that is overcrowded and/or in need of major repairs or that costs more than 30 per cent of pre-tax income. By this standard, 144,720 households in Metro Vancouver—more than one in six (17.7 per cent) households—were in core housing need in 2011. This number was the highest by far of any Canadian city,⁴⁰ and much higher among renters (almost one in three) than among owners (one in nine).

Certain types of household experience more core housing need than the average: lone seniors and single-parent families, Aboriginal households and recent immigrants.⁴¹ Combining these factors, more than half of renters who are lone seniors or single-parent households are in core housing need, as are two in five renters who are Aboriginal or immigrant households.

A new data project, the Rental Housing Index (RHI), suggests the crisis in the rental market is even more severe.⁴² Developed by the BC Non-Profit Housing Association (BCNPHA) in partnership with Vancity, the RHI draws on the 2011 *National Household Survey* and has more comprehensive coverage of the rental market, including secondary suites. It estimates that 45 per cent of renter households (136,025) spend more than 30 per cent of total income on rent plus utilities and that 24 per cent (73,540) spend more than half on rent plus utilities. In addition, 16 per cent of households (47,415) live in overcrowded conditions. Arguably, this affordability crisis is more acute today at 2016 housing prices.

At the most extreme end of the affordability crisis is homelessness, a state of having no tenure over housing and being excluded from a basic necessity of living. Metro Vancouver’s 2014 homeless count put the population at 2,777, though this number is widely regarded as an underestimate.⁴³ The count includes people in shelters (1,820, or 66 per cent) and unsheltered (957, or 34 per cent), and acknowledges there are likely to be many more who are “hidden homeless,” those sleeping in cars or couch surfing and not captured by the survey. A 2008 study by Simon Fraser

Metro Vancouver’s 2014 homeless count put the population at 2,777, though this number is widely regarded as an underestimate.

40 CMHC, *Households in Core Housing Need, Canada, Provinces, Territories and Metropolitan Areas, 1991–2011*, <http://www.cmhc-schl.gc.ca/en/hoficlincl/homain/stda/loader.cfm?csModule=security/getfile&PageID=304126>.

41 Interesting aside: The longer the time since immigration, the lower the incidence of core housing need, and it falls below the overall average for immigrants who arrived before 1986.

42 The data are available at <http://rentalhousingindex.ca>.

43 The count was done on the evening of March 11 and during the day of March 12, 2014. Greater Vancouver Regional Steering Committee on Homelessness, *Results of the 2014 Homeless Count in the Metro Vancouver Region*, <http://stophomelessness.ca/wp-content/uploads/2014/07/Results-of-the-2014-Metro-Vancouver-Homeless-Count.pdf>.

University's Centre for Applied Research in Mental Health and Addiction estimated that 11,750 people in BC who had severe addictions and/or mental illness were "absolutely homeless," while another 18,750 were at imminent risk of homelessness.⁴⁴

Research shows that the cost of providing decent housing would be similar to existing public costs, when health care, criminal justice and social services are taken into account.

In the Metro Vancouver homeless count, more than one in five identified as Aboriginal (compared to just 2 per cent in the general population). Some 410 children and youth were counted as homeless (15 per cent of the total). Asked "What do you think is keeping you from finding a place of your own?" the main reported barriers were low income (47 per cent) and high rents (42 per cent). Other key factors, addiction (27 per cent) and mental illness (15 per cent), point to the need for housing models integrated with support services. Research shows that the cost of providing decent housing would be similar to existing public costs, when health care, criminal justice and social services are taken into account.⁴⁵

The BC government's preferred intervention in housing is through rental assistance for families and seniors, a means of supplementing low income so that people can live in accommodation that would otherwise be unaffordable. BC Housing rental assistance in the private market (under the Rental Assistance Program [RAP] and Shelter Aid for Elderly Renters [SAFER] program) in 2014–15 covered 29,584 units,⁴⁶ a very small share of the overall rental market. Importantly, the RAP program only covers families with children under 18 and specifically excludes those on social assistance (the poorest British Columbians). BC Housing has an additional program that offers rental assistance for homeless people, which last year provided rental assistance for 3,146 units.

Given the prevailing distribution of income, some form of subsidy is required for low-income households (income supplements toward rent or subsidized spaces in social housing). As noted above, renters who receive subsidies toward housing are not alone; in fact, owners are more highly subsidized by governments. A concern with rent assistance programs is that they end up subsidizing landlords to raise rents. More comprehensive solutions must look beyond market forces and subsidies on the margin toward more meaningful reforms that treat housing as a human right, prioritize those who are most in need and develop a sane local housing system.

44 M. Patterson et al., *Housing and Support for Adults with Severe Addictions and/or Mental Illness in British Columbia* (2008), <http://www.sfu.ca/content/dam/sfu/carmha/resources/hsami/Housing-SAMI-BC-FINAL-PD.pdf>.

45 Lauren B. Currie, Akm Moniruzzaman, Michelle L. Patterson and Julian M. Somers, *At Home/Chez Soi Project: Vancouver Final Report*, (Calgary, AB: Mental Health Commission of Canada, 2014), <http://www.mentalhealthcommission.ca>.

46 The cost was \$102 million, or \$3,448 per unit. BC Housing, *Annual Report 2014/15*, <http://www.bchousing.org/resources/About%20BC%20Housing/Annual%20Reports/2015/2014-15-Annual-Report.pdf>.

A housing solutions agenda

IT IS CLEAR THAT WE NEED A MAJOR PLAN TO DELIVER ON AFFORDABLE HOUSING, for both renters and prospective homebuyers. Recent efforts at the federal, provincial and municipal levels have not been sufficient to address the affordability crisis. Political will is strong at the municipal level, but local governments lack the policy tools to fully lean into the affordability problem. We should also recognize that increasing supply on its own is not likely to deliver results without efforts to reduce or deter purchases of housing (whether foreign or domestic buyers) for investment.

In this section we review the building blocks of a “big bang” affordability agenda, with a focus on what the BC government can do. A suite of broad-based affordability solutions should aim to (1) cool external demand and discourage speculative capital flows, (2) use public sector tools (tax, regulatory and Crown corporations) to preserve and expand housing supply that is affordable for low-income and working people, (3) improve the overall fairness of access to and ownership of property and (4) provide stability in the form of steady employment and investment in the housing sector.

BUILDING NEW AFFORDABLE HOUSING STOCK

Addressing Vancouver’s housing problems requires a dedicated multi-decade pipeline of new affordable housing construction, with a focus on new social and co-op housing for renters. The federal government’s renewed role in funding affordable housing is welcome; it has set aside \$2.3 billion in the 2016 federal budget (nationally) over two years plus committed to consult on a

Recent efforts at the federal, provincial and municipal levels have not been sufficient to address the affordability crisis.

national housing strategy over the next eight years. At this stage, housing advocates see this move as an important but modest “down payment.”⁴⁷

Efforts by the BC government are sorely needed to complement municipal and federal actions. The February 2016 BC budget announced \$355 million (from the sale of land to non-profit providers of housing) to create about 2,000 new units over five years. This signals a welcome but modest re-entry into funding new affordable housing stock, although no commitment has been made to support ongoing operating costs, which may make these units too expensive for the most vulnerable.⁴⁸ Much more could be done to re-energize BC Housing and return its focus to its original mandate from 1967, when it was conceived as a Crown corporation tasked with financing and operating affordable housing.

BC used to bring on stream approximately 2,000 units of new social or co-op housing each year.

In the early years of social housing in BC, the federal government was central in putting funds on the table for provincial partnerships, often with a split that was two-thirds federal money and one-third provincial. Also key players were non-profit community groups, such as church groups and co-operatives, that applied for funds, and contributed land and other equity from fundraising as part of their applications. Consequently, between the early 1970s and the early 1990s, BC used to bring on stream approximately 2,000 units of new social or co-op housing each year (putting BC’s latest “historic” announcement into useful context). The legacy of this work is also evident today in the 700 non-profits that run the vast majority of social housing in BC.⁴⁹ Total social and co-operative housing in the region was 50,349 units in 2014.⁵⁰

The recent emergence of municipal housing agencies brings new partners to the table. The Vancouver Affordable Housing Agency (created in 2014) aims to build 500 units in a start-up phase and 2,000 more by 2021. Metro Vancouver Housing Corporation (MVHC) owns 50 rental complexes across 11 municipalities, which provide 3,500 units of market and subsidized rental housing. As mortgage payments on the bulk of the properties end in the next five to 10 years, Metro Vancouver anticipates MVHC will have “significant cash flow in excess of its operating needs...[and] aims to use this projected cash flow to lever investments in mixed-income housing throughout the region.”⁵¹

In other countries, public housing has long been part of the solution. Perhaps one of the most renowned is Singapore, where 82 per cent of residents live in 900,000 apartments built by the city-state’s Housing and Development Board (HDB). Moreover, the HDB encourages ownership of the apartments, with 90 per cent of residents owning their homes. The state provides grants and awards toward this end, and allows social security savings to be used for down payments and mortgage installments. In Vienna, Austria, almost half of the total housing stock is social housing, and the city acts as a developer. Austria as a whole has 800,000 units of social housing, a quarter of its total housing stock.⁵²

47 The cost was \$102 million, or \$3,448 per unit. BC Housing, Annual Report 2014/15, <http://www.bchousing.org/resources/About%20BC%20Housing/Annual%20Reports/2015/2014-15-Annual-Report.pdf>.

48 BC Non-Profit Housing Association, “Most Vulnerable Left Out of New Affordable Housing Fund”, April 20, 2016, <http://bcnpha.ca/news/most-vulnerable-left-out-of-new-affordable-housing-fund/>.

49 Jill Atkey (Director, Research & Education, BC Non-Profit Housing Association), in discussion with the author, January 18, 2016.

50 *Metro Vancouver Housing Data Book* (November 2015), http://www.metrovancouver.org/services/regional-planning/PlanningPublications/MV_Housing_Data_Book.pdf.

51 Metro Vancouver, *Regional Affordable Housing Strategy Update: Discussion Paper* (March 28, 2014), http://www.metrovancouver.org/services/regional-planning/PlanningPublications/HOU_StrategyUpdate.pdf.

52 C. Whitehead and K. Scanlon, eds., *Social Housing in Europe* (London: London School of Economics and Political Science, 2007), <http://www.lse.ac.uk/geographyAndEnvironment/research/London/pdf/SocialHousingInEurope.pdf>.

There are other benefits to a public-led model where building is according to need rather than profit. Cutting out developer profit margins (generally thought to represent 10 to 20 per cent or more of the sale price of new housing) is one. Municipal partners could bring in other regulatory changes to reduce costs, such as waiving parking requirements and community amenity contributions. As discussed below, a progressive property tax can fund land purchases and support the upfront capital costs of new construction, with the latter repaid in rental income over time.

Overall, we need a spectrum of housing options that work for people with different incomes and at different stages in their life. Alternative tenure arrangements, such as leasehold arrangements on public land and community land trusts, could also factor into the equation. A range of models could be supported through this mechanism, including residential care and assisted living for seniors, co-housing and co-operatives, and purpose-built rentals.

What is needed and how much would it cost?

The ambition of an affordable housing building program is a matter of political will. Although all levels of government have now expressed a renewed interest in affordable housing, so far the funding actually on the table remains very small relative to need. Given the current crisis and the long period since public housing efforts have been given prominence, there is a lot of catching up to do. A long-run target could be building 145,000 new units of affordable housing to address core housing need. Any building program should give priority to households in extreme housing need, but a ramped-up program could entertain other near-market rental and affordable ownership options.

Any building program should give priority to households in extreme housing need.

Top areas for public housing investment include:

HOUSING THE HOMELESS: The total homeless population is about 3,000 based on Metro Vancouver's homeless count, and several thousand more people are likely in a state of near-homelessness. Many homeless people also suffer from mental health and/or addiction issues, which require a degree of coordinated care beyond just providing shelter.

EXPANDING THE NUMBER OF NON-MARKET RENTALS: Based on population growth in Metro Vancouver of 1.4 per cent per year over the next two decades, the BCNPHA estimates growing demand for rental accommodation (overall) at between 3,907 and 5,416 new units per year.⁵³ The current waiting list for social housing in Metro Vancouver is about 10,000 applicants.⁵⁴ BC's co-operative housing sector is a model worth restoring for affordable and democratic housing. Housing for larger families is also in demand.

SUPPORTING IMMIGRANTS AND REFUGEES: The Syrian crisis has prompted Canada to accept new refugees, most of whom will end up in major cities like Vancouver. The total number in BC will be around 3,500 by the end of 2016. Housing the larger families is currently proving challenging due to a shortage of units with three or more bedrooms.⁵⁵ Over the medium- to

53 BC Non-Profit Housing Association, *Our Home, Our Future: Projections of Rental Housing Demand and Core Housing Need, Greater Vancouver Regional District to 2036* (September 2012), http://bcnpha.ca/wp_bcnpha/wp-content/uploads/2012/09/15_Greater_Vancouver_1209211.pdf.

54 Data received from BC Housing. The total number of applicants on the housing registry as of December 31, 2015 includes families (3,228), singles (772), people with disabilities (2,111), people requiring wheelchair-modified units (403) and seniors (3,442).

55 T. Carman, "Large refugee families hard to house in B.C.," *Vancouver Sun*, February 2, 2016, http://www.vancouver.sun.com/large-refugee-families-hard+house/11696101/story.html?__lsa=1e04-2bd7.

long-term, it is anticipated that climate change will lead to increased migration to BC.⁵⁶ Having benefited from fossil fuels disproportionately, BC has a moral obligation to aid those who have been displaced by climate change and should factor these needs into its future housing planning.

PROVIDING RESIDENTIAL CARE AND ASSISTED LIVING: A large majority of seniors live independently, with about 20 per cent who are renters and a smaller proportion (7 per cent) in assisted living (about 24,000 seniors) and residential care (30,000) units. There were 12,386 seniors' subsidized units, funded by BC Housing, as of 2015.⁵⁷ As of the end of that year, 3,442 people were on the waiting list for seniors' subsidized housing (BC Housing) in Metro Vancouver, and the average waiting time to get in was more than two years.⁵⁸ As BC's population grows and ages, increases in housing services for seniors will be needed. For example, between 2015 and 2030 the number of BC seniors will increase by an estimated 19 per cent,⁵⁹ implying another 10,260 assisted living and residential care spaces and another 2,353 subsidized housing spaces just to match population growth—that is, without any increase in the availability of additional housing services.

The key challenge is purchasing land for new housing.

To put this housing need into numbers, estimated construction costs are about \$250 per square foot (sf).⁶⁰ We will want to build a range of housing sizes (not just small units), so assume an average of 800 sf per unit. This yields construction costs of \$200,000 per unit, based on wood-frame mid-rise construction (which costs 30 to 40 per cent less than concrete construction). Purchase of the land, development cost levies and community amenity charges would add another \$50,000 per unit. Based on these amounts, three illustrative examples could be:

- Modest plan: 2,000 new units per year at a total cost of \$500 million.
- Medium plan: 5,000 new units per year, total cost of \$1.25 billion.
- High-ambition plan: 10,000 new units per year, total cost of \$2.5 billion.

It is important to recognize that these amounts represent upfront capital costs that would be paid back through the flow of rental income over the life of the buildings. Based on the numbers above, a 600 sf one-bedroom apartment would cost \$150,000 to build (just construction). Even rented at a subsidized rate of \$600 per month, that unit would generate \$216,000 in income over a 30-year period, an amount that is larger than the upfront construction cost. This is obviously a simple example, and ongoing operating costs such as upkeep and maintenance would also be required. Similar flows of rental income hold for two-bedroom and three-bedroom apartments. Even a 400 sf bachelor apartment rented at the BC shelter allowance of \$375 per month yields \$135,000 in rent over 30 years, compared to an estimated \$100,000 construction cost.

The key challenge is purchasing land for new housing. In several cases, existing land owned by municipal, provincial and federal governments could be put on the table, and such fees as the development cost levies (DCLs) and community amenity contributions (CACs) could be waived as part of the municipal contribution. Both strategies would reduce costs. Revenues from property tax reform (below) could also support direct contributions toward purchasing land and

56 S. Dickson, S. Webber and T. Takaro, *Preparing BC for Climate Migration* (Vancouver: CCPA, November 2014), <https://www.policyalternatives.ca/publications/reports/preparing-bc-climate-migration>.

57 Office of the Seniors Advocate, *Monitoring Seniors' Services 2015*, <https://www.seniorsadvocatebc.ca/wp-content/uploads/sites/4/2016/01/SA-MonitoringSeniorsServices-2015.pdf>.

58 Note that these seniors are also included among the 10,000 applicants on the waiting list mentioned in note 54.

59 BC Stats, *British Columbia-Level Population Projections, 1971-2014 Estimates / 2015-2041 Projections*, <http://www.bcstats.gov.bc.ca/StatisticsBySubject/Demography/PopulationProjections.aspx>.

60 Altus Group, *Construction Cost Guide 2014*, http://www.altusgroup.com/media/1160/costguide_2014_web.pdf.

offsetting other charges, in addition to financing upfront construction costs, which would be repaid over time.

Given the need for affordable housing, there is every reason our governments could move forward with an ambitious build-out program that would see the construction of 5,000 to 10,000 new units of social or co-op housing per year.

Affordable ownership models

A local model of interest is the Whistler Housing Authority (WHA), a corporation that is tasked with planning, building and managing new housing stock for the municipality's workers. It was created in the 1990s as a response to rising real estate prices and concerns about the ability of workers to afford to live in the resort municipality. Whistler introduced a bylaw that requires companies to build housing for their workers or contribute to a fund to that end.

The WHA started with rental accommodation, but since 2000 it has promoted affordable ownership options protected by covenants that limit price increases on homes and restrict occupancy to local workers. Both of these strategies remove the speculative element that drives housing prices higher. As a result, about half of WHA's 6,000 units are now affordable to own, and Whistler provides accommodation for 82 per cent of its workers.⁶¹

Community land trusts (CLTs) are a prominent example of an innovative tenure arrangement that improves access to and ownership of property. Technically, CLTs are a form of shared equity, or common land ownership, in which land is held by a non-profit entity (or a municipality) and then leased to owners of individual homes. Legal protections in CLTs restrict resale prices or require units to be resold to the CLT based on a pre-determined formula.⁶² Taking the price of the land out of the equation, and keeping it separate from ownership of individual units, makes home ownership affordable. Owners get the benefits of having secure tenure and control over their dwelling. The sale of units on CLTs can be structured to achieve a balance between providing some equity return and keeping the units affordable in perpetuity.

A case study of the emerging Vancouver Community Land Trust Foundation (VCLTF) shows some of the key features and benefits that can be gained through partnerships between government and non-profit entities.⁶³ The foundation grew from the Mayor's Task Force on Housing Affordability, a City of Vancouver initiative that identified CLTs as one of 15 specific actions needed to improve housing affordability in the city. Today it is responsible for four sites made available by the city on 99-year leases on which it will develop affordable housing units with equity from two non-profit housing societies and contributions from BC Housing and the Vancity credit union. The target dates for completion of construction and occupancy are in 2017–18.

Whistler introduced a bylaw that requires companies to build housing for their workers or contribute to a fund to that end.

61 Presentation by Whistler Housing Authority to the Beyond the Headlines: Solving Canada's Housing Crisis forum, November 2015. See <https://www.sfu.ca/publicsquare/blog/2015/solving-canadas-housing-crisis.html>.

62 L. Crabtree, P. Phibbs, V. Milligan and H. Blunden, *Principles and Practices of an Affordable Housing Community Land Trust Model* (Melbourne: Australian Housing and Urban Research Institute, January 2012), http://www.ahuri.edu.au/__data/assets/pdf_file/0006/3102/AHURI_Research_Paper_Principles-and-practices-of-an-affordable-housing-community-land-trust-model.pdf.

63 K. Patten, *Vancouver Community Land Trust Foundation: Examining a model for long-term housing affordability* (Vancouver: UBC School of Community and Regional Planning, April 2015), <http://www.futureofpublichousing.ca/wp-content/uploads/2015/11/Vancouver-Community-Land-Trust-Foundation.pdf>.

PRESERVING AND REINVESTING IN EXISTING AFFORDABLE HOUSING

An important way of supporting affordable housing is to prevent the loss of existing affordable housing stock, including social and co-operative housing as well as purpose-built rentals. Among other things, this means ensuring ongoing subsidies for social housing and carrying out regular upgrades and maintenance, including retrofits to increase energy efficiency and reduce carbon emissions.

Historically, the federal government provided an operating subsidy for social housing units it had produced. These grants helped to pay off mortgages, support upkeep and repair costs and, most importantly, keep a certain share of the units at below-market rent. These subsidies are now being phased out because of an assumption made during the planning phase of these projects: once the 35-year mortgage was paid off, it was thought, this would free up funds to replace the subsidy. In practice, these aging buildings need major new investments due to deferred maintenance costs.

BC's older housing stock has poorer energy efficiency performance and higher carbon emissions than newer stock.

According to the BCNPHA, operating agreements representing almost 30,000 units are due to expire by 2033, with 5,900 in the near-term between 2015 and 2020.⁶⁴ As the operating agreements expire, the non-profit providers become fully responsible for the ongoing finances of these housing units, which raises concerns about the continued viability of subsidizing units serving vulnerable populations.

Thus, a top priority for preserving existing affordable housing stock is ensuring the continuation of federal supports after the operating agreements expire. The annual value of these subsidies is about \$200 million province-wide, and most of the money comes from the federal government.⁶⁵ Some provincial subsidies also exist for new BC-initiated social housing built after 1993, and the provincial government has committed to continuing subsidies for its portion.⁶⁶ Maintaining federal support at existing levels to ensure housing supply for low-income households would greatly facilitate the redirection of funds to the most needy.

In addition, reinvestment in the form of upgrades and maintenance is needed. One way is to link these improvements to energy efficiency retrofit projects in older housing stock and multi-unit buildings and thereby take advantage of funding that promotes a low-carbon transition. This approach links the housing agenda to energy efficiency, renewables and district energy (centralized systems for heat and hot water delivery). BCNPHA is developing estimates for the needed upgrades, and it has now completed this assessment for about 80 per cent of its non-profit housing stock. The estimated cost is about \$190 million to get the units into a safe and comfortable condition for tenants, and \$380 million to get them up to new condition.⁶⁷ In contrast, BC Housing's annual budget for upgrades is only seven million dollars. The 2016 federal budget takes a major step in this direction by providing support for water and energy efficiency in existing social housing: BC's share is approximately \$75 million over two years.⁶⁸

Similar upgrades to aging buildings are also needed for purpose-built rental housing. These could likewise be combined with energy retrofits and shifts to renewable power sources. BC's older

64 BC Non-Profit Housing Association, *Expiring Operating Agreements: A Planning Guide for BC's Non-Profit Housing Societies* (November 2014), http://bcnpha.ca/wp_bcnpha/wp-content/uploads/2014/12/EOAPlanningGuide_141217.pdf.

65 BC Housing, *2014/15 Annual Report*, <http://www.bchousing.org/resources/About%20BC%20Housing/Annual%20Reports/2015/2014-15-Annual-Report.pdf>.

66 Jill Atkey, in discussion with the author, January 18, 2016.

67 Ibid.

68 The 2016 federal budget commitment is \$574 million nationally, and BC's population share is about 13 per cent.

housing stock has poorer energy efficiency performance and higher carbon emissions than newer stock. Retrofitting these buildings can greatly improve their energy performance and livability, with the added benefit of reducing energy poverty (low-income households are more likely to live in older and less efficient housing stock). Most federal and provincial retrofit programs have been sporadic and underfunded, and have mostly targeted homeowners and single-family homes. New programs should target older, multi-unit buildings and rental housing stock. A mix of subsidies and tax credits could facilitate these upgrades. CCPA research estimated a decade-long program would cost about \$220 million per year (BC-wide) and would directly support 12,000 jobs.⁶⁹

In the absence of careful rules and a coordinated program, redevelopment of purpose-built rental stock could end up displacing low-income tenants (even though more units would be created through the redevelopment). The Federation of Canadian Municipalities (FCM) has proposed a rental incentive tax credit in response to concerns about demolition of rental stock or conversion of these units to condos. The proposed incentive “would credit property owners for selling affordable assets to eligible non-profit providers (including a municipality)” and would “target small investors that face large tax liabilities when they sell properties.”⁷⁰

A screen to assess a new development’s impact on affordability could be incorporated into planning decisions to guard against displacement. This approach could be combined with “fair redevelopment” policies to give tenants some security of tenure in the face of change. Vancouver’s city council recently voted to increase protection for renters, including some measures that will require changes to the province’s Residential Tenancy Act. These include rights of first refusal on new units built and 1:1 replacement of affordable housing stock. Although there may be a compelling case for redevelopment in low-density areas, such projects need to increase the total number of units available to low-income households and must engage them early on so they have a meaningful say in how decisions are made.

A growing Metro Vancouver will need better planning to offer affordable housing options across the region while reducing commuting times and auto dependence.

INCLUSIONARY HOUSING IN COMPLETE COMMUNITIES

A post–World War II answer to housing affordability has been to build new housing where land is cheaper, ever farther away from the urban core. Vancouver’s geography makes this approach more of a challenge, though some argue for converting the region’s agricultural land to housing. However, this kind of development risks worsening the urban sprawl, auto dependence and long commutes, and reliance on food imports. A growing Metro Vancouver will need better planning to offer affordable housing options across the region while reducing commuting times and auto dependence.

As its population grows, Vancouver will inevitably continue to grow up instead of out, which means higher densities, or more people living per hectare. Metro Vancouver estimates that roughly 500,000 homes will be required to house one million additional people over the coming 25 years.⁷¹ Vast swathes of the city that are low density areas with single-family homes could be

69 M. Lee, E. Kung and J. Owen, *Fighting Energy Poverty in the Transition to Zero-Emission Housing: A Framework for BC* (Vancouver: CCPA, September 2011), <https://www.policyalternatives.ca/energy-poverty>.

70 Federation of Canadian Municipalities, *Built to Last: Strengthening the Foundations of Housing in Canada* (2015), https://www.fcm.ca/Documents/reports/FCM_Built_to_Last_Strengthening_the_foundations_of_housing_in_Canada_EN.pdf.

71 Metro Vancouver, *Regional Affordable Housing Strategy Update: Revised Draft* (August 2015), <http://www.metrovancouver.org/services/regional-planning/PlanningPublications/RegionalAffordableHousingStrategyUpdateAug19-2015.pdf>.

opened up through investments in transit infrastructure, public services (child care, libraries, etc.) and mixed-use development. Across Metro Vancouver, more than one-third of the built area is still zoned for lower-density single-family or duplex housing (41 per cent of the City of Vancouver).⁷²

Pushes for densification, however, can lead to conflict with local residents. Density has become a bad word in some neighbourhood planning exercises, largely because of its association with developers proposing towers of exclusive and luxury properties that are not affordable, and that may indeed displace existing residents. In contrast, more gentle forms of density (duplexes and triplexes, laneway houses and row housing) up to mid-rise buildings may be less profitable (offering, for example, fewer mountain views) but are better integrated with and accepted by existing neighbourhoods.

In rezonings or new development approvals, affordable housing must be woven into the fabric of planning decisions. This includes public sector affordable housing developments as already noted, but also public facilities, which can anchor jobs and services to communities. For example, seniors' housing options can be integrated with health care services. Child care facilities and schools are increasingly part of the package of CACs negotiated by municipal governments.

European cities show us that density can be accomplished with more uniform, mid-rise development.

For private sector developments, inclusionary zoning means carving out a percentage (typically 20 to 30 per cent) of newly constructed units as affordable. Hundreds of US municipalities have adopted this approach, using the development process, regulations and incentives to support the construction of new affordable housing without relying on government funding. Inclusionary zoning has already been part of development plans in central Vancouver, at least in northeast False Creek and along the Cambie Corridor, in exchange for higher-density development. Montreal and Toronto are also examples of Canadian cities using inclusionary zoning.⁷³

Inclusionary zoning should be incorporated as a design principle for redevelopments, thereby locking in affordability as new market housing is built. Once built, new affordable units could be managed by a non-profit or by the city as part of a broader pool of dedicated rental stock. It is important to note that rezoning and new public investments and transit infrastructure create new value out of thin air: windfall gains that accrue to property owners from redevelopment. The public partly captures these windfalls through CACs that pay for community facilities, parks, child care and affordable housing. Measures to capture a larger portion of the increase in land values could be invoked to support affordable housing investments (called land value capture).⁷⁴

European cities show us that density can be accomplished with more uniform, mid-rise development. Cities with high scores for livability show that, done properly, this approach can reinforce local neighbourhood and community, including local businesses and a robust mix of public spaces, parks, community centres and libraries, and other amenities. In the predominantly single-family areas, a first step is stratification, or enabling lots to be broken down into three to five units, each of which is relatively more affordable. Much of the development in Vancouver's Kitsilano neighbourhood has been of this variety.

72 In addition, one-quarter of the built area in Metro Vancouver is for roads: 34 per cent in City of Vancouver. These calculations strip out natural areas like parks and undeveloped areas. Mountain Math, "Land Use, Roads (and Parking)" on *Mountain Doodles* (blog), based on land use data from Metro Vancouver, <http://doodles.mountainmath.ca/blog/2016/02/29/land-use/>.

73 A project by the Wellesley Institute in Toronto, *Inclusionary Housing Canada*, has case studies of the three Canadian cities and six American ones, <http://inclusionaryhousing.ca/category/case-studies/>.

74 This idea is often considered in the context of financing transit infrastructure investments. A related concept is tax increment financing, which borrows upfront against the expected future flow of higher property taxes arising from the particular new public investment. For a survey, see G. Ingram and Y. Hong, *Value Capture and Land Policies: Proceedings of the 2011 Land Policy Conference* (Cambridge, MA: Lincoln Institute of Land Policy, May 2012), http://www.lincolnst.edu/pubs/2026_Value-Capture-and-Land-Policies.

New developments must integrate environmental imperatives, in particular rapidly reducing carbon emissions. The per-unit cost of infrastructure (e.g., utilities, roads, storm drains) is much less in more dense developments.⁷⁵ Higher densities also enable the use of district energy systems to provide heat and hot water, which together account for about three-quarters of household energy use.

This push to a zero-emissions future is linked to developing “complete communities,” neighbourhoods where people live much closer to where they work, shop, access public services and play.⁷⁶ This idea is already prominent in Vancouver’s West End, Commercial Drive and Kitsilano neighbourhoods, and it informs the regional strategy of growth around city centres and major transit hubs. In more compact communities, parking spaces for cars are no longer needed, freeing up space for additional housing. The cost of an indoor parking space can be \$20,000 to \$45,000, a non-trivial expense.⁷⁷

An example of what this could look like can be found in *A Convenience Truth*, a plan developed by UBC students for a sustainable (City of) Vancouver by 2050.⁷⁸ A key planning decision in their modelling to accommodate a doubling of people and jobs is to increase the number of people living in the large low-density areas of the city. Energy efficiency and access to district energy systems are also key components. The result includes new developments in a range of forms, such as apartments, row housing and multiplexes, to bring people closer to jobs and services so they can walk and bike more, and to streetcar infrastructure so they can connect to transit more easily.

An extreme view of Vancouver’s future lies in the experience of London, England, where in just six years foreign investors snapped up 100 billion pounds of real estate.

PUTTING THE BRAKES ON EXTERNAL CAPITAL FLOWS AND SPECULATIVE INVESTMENT

An extreme view of Vancouver’s future lies in the experience of London, England, where in just six years foreign investors snapped up 100 billion pounds of real estate—an amount equivalent to BC’s annual GDP—in many cases through corporations, and with links to money laundering and tax evasion.⁷⁹ With the release of the Panama Papers, it was uncovered that companies based in tax havens to hide their wealth control thousands of title deeds worth at least seven billion pounds.⁸⁰ Overall, it is estimated that 10 per cent of the UK’s housing stock is foreign owned.⁸¹

75 P. Condon, *Seven Rules for Sustainable Communities: Design Strategies for the Post-Carbon World* (Washington, DC: Island Press, 2010).

76 P. Condon et al., *Transportation Transformation: Building complete communities and a zero-emission transportation system in BC* (Vancouver: CC PA, April 2011), <https://www.policyalternatives.ca/transportationtransformation>.

77 Metro Vancouver, *The Metro Vancouver Apartment Parking Study: Revised Technical Report* (September 2012), http://www.metrovancouver.org/services/regional-planning/PlanningPublications/Apartment_Parking_Study_TechnicalReport.pdf.

78 P. Condon and S. Hein, eds. *A Convenience Truth: A Sustainable Vancouver by 2050* (Vancouver: UBC School of Architecture and Landscape Architecture, and UBC School of Community and Regional Planning, 2011).

79 P. Crerar and J. Prynne, “Revealed: How foreign buyers have bought £100bn of London property in six years,” *The Evening Standard*, October 21, 2015, <http://www.standard.co.uk/news/london/revealed-how-foreign-buyers-have-bought-100bn-of-london-property-in-six-years-a3095936.html>.

80 D. Pegg, H. Bengtsson and H. Watt, “Revealed: the tycoons and world leaders who built secret UK property empires,” *The Guardian*, April 5, 2016, <http://www.theguardian.com/news/2016/apr/05/panama-papers-world-leaders-tycoons-secret-property-empires>.

81 D. Valentine, *Solving the UK Housing Crisis: An analysis of the investment demand behind the UK’s housing affordability crisis* (London: The Bow Group, November 2015), [http://www.bowgroup.org/sites/bowgroup.uat.pleasetest.co.uk/files/The%20Bow%20Group%20-%20The%20UK%20Housing%20Crisis%20\(2015\)%20FINAL.pdf](http://www.bowgroup.org/sites/bowgroup.uat.pleasetest.co.uk/files/The%20Bow%20Group%20-%20The%20UK%20Housing%20Crisis%20(2015)%20FINAL.pdf).

Vancouver is not London, and it is not clear to what extent money hidden in tax havens, or even generally offshore, is affecting the local property market. However, Knight Frank Research in the UK put Vancouver at the top of the list of cities for fastest growth in luxury real estate in *The Wealth Report*, a look at the investment trends of high net worth individuals (those with more than \$30 million in assets) from around the world.⁸² Vancouver is clearly among the destinations for global capital looking to park wealth in the form of real estate. The recent Panama Papers leak reveals that investing through corporate entities, in some cases registered in tax havens, makes it difficult to gather basic data.⁸³ These ventures make it possible to evade the property transfer tax in BC when the owner of the corporation changes but the corporate owner of the property does not (this issue has also come up in the context of “bare trusts”).

The ability of external capital to flow into local real estate markets is essentially unquestioned in recent media reports. Yet it is not obvious why non-resident ownership of local real estate is inevitable or desirable, in particular amid increased global capital flows. Since the development, real estate and construction sectors all have an interest in the status quo, and governments receive additional revenue under this system, they tend to look the other way when foreign investment is raised as an issue.

Instead, consider an alternative starting point: real estate markets should be local, or limited to those who live and work in the city year-round. Domestic and international immigrants are most welcome to join the party, but only if they come to contribute to society and the economy. More fundamentally, local residents or non-profit entities, not corporations, should own residential real estate.

Real estate markets should be local, or limited to those who live and work in the city year-round.

Interestingly, there is already a basis for restricting foreign ownership in Canadian law. Section 35 of the federal Citizenship Act (C-29, 1985) enables provincial governments to “prohibit, annul or in any manner restrict the taking or acquisition directly or indirectly of, or the succession to, any interest in real property located in the province by persons who are not citizens or by corporations or associations that are effectively controlled by persons who are not citizens.”⁸⁴ Prince Edward Island exercises this provision with regard to agricultural land.

Cooling, if not directly restricting, external capital is needed to prevent local real estate markets from overheating further, and these controls are necessary to ensure a rational market for housing that works in the interests of the local economy. Even if treating residential real estate primarily as an investment is concentrated in certain areas, the ripple effects are felt on all housing prices and in other parts of the region. It also reinforces the bubble psychology that real estate will forever go up in value, creates conditions for speculation and affects the types of new housing being constructed.

A number of other jurisdictions have wrestled with this challenge:

Switzerland requires permits for certain types of foreign investments in real estate. European Union (EU) and European Free Trade Association (EFTA) nationals living in Switzerland do not require a permit. For a main residence, “third-country nationals” who live there and have a valid

82 Knight Frank Research, *The Wealth Report 2016* (March 2016), <http://content.knightfrank.com/research/83/documents/en/wealth-report-2016-3579.pdf>.

83 J. Manthorpe, “From Panama to Hong Kong—and why you can’t afford to live in Vancouver,” *iPolitics* (blog), April 6, 2016, <http://ipolitics.ca/2016/04/06/from-panama-to-hong-kong-and-why-you-cant-afford-to-live-in-vancouver/>.

84 See <http://laws-lois.justice.gc.ca/eng/acts/C-29/page-10.html>.

residency permit do not require a permit, but they do for second homes and holiday apartments. Further restrictions apply for owners who live outside the country.⁸⁵

Australia requires foreign acquisitions of real estate to be approved by its Foreign Investment Review Board (FIRB). An application fee must also be paid. The FIRB publishes data on the number and value of approved purchases. According to the Australian government, the goal of these regulations is to ensure that foreign investments are channelled into new dwellings that increase the country's housing stock.⁸⁶ That said, it seems Australia's efforts have thus far had limited effect on cooling its housing market.

In Mainland China, foreigners are generally prohibited from owning land, and foreign individuals are limited to owning one residential property for self-use and only if they have been in the country for more than one year.

Changes to property tax regimes have also been introduced. The UK announced increases in the rates and brackets for its property transfer tax ("stamp tax") in December 2014, with a progressive rate structure (more on this in the next section).⁸⁷ Some jurisdictions have brought in stamp taxes that are higher for foreign owners or for properties that are flipped. Another example is Israel doubling property tax for properties vacant nine months of the year.⁸⁸

Altogether, these ideas show that other jurisdictions are ahead of Canada/BC in applying policy to curb or limit foreign investment and stop treating housing primarily as an asset. These strategies merit attention as part of a package of reforms for Vancouver.

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PROGRESSIVE PROPERTY TAXATION

This section considers the role of property taxes, and reforms to the tax treatment of property wealth. The interrelated objectives are to:

- make the property tax system more fair to renters;
- reduce wealth inequality and improve the overall equity of the tax system;
- curb speculation and external investment that drives up prices; and
- raise revenues to help finance the housing agenda proposals listed above.

Although the primary focus of this section is the BC government, many of these actions could be undertaken at a regional or municipal level as well, if given legal authorization by the province. We look at reforms to property tax, the homeowner grant, property transfer tax and income tax.

85 Government of Switzerland, "Buying a house or apartment in Switzerland as a foreign national," <https://www.ch.ch/en/real-estate-foreign-national/>.

86 Australian Government Foreign Investment Review Board, "Residential Real Estate—overview [GN1]," <https://firb.gov.au/resources/guidance/gn01/>.

87 Gov.uk, "Stamp Duty Land Tax: Residential Property Rates," <https://www.gov.uk/stamp-duty-land-tax/residential-property-rates>.

88 N. Bousso, "Interior Minister Approves Doubling Property Taxes on Vacant Israeli Apartments," *Haaretz*, May 20, 2013, <http://www.haaretz.com/israel-news/business/interior-minister-approves-doubling-property-taxes-on-vacant-israeli-apartments.premium-1.524821>.

Property tax

Property taxes raise about seven billion dollars per year in BC (municipal and provincial; residential and other categories).⁸⁹ They are considered an economically efficient form of taxation with good potential for raising new revenues.⁹⁰ Economists are often concerned about whether people will change their behaviour or leave the jurisdiction to avoid a particular tax. Land, notably, cannot be hidden, which means the full burden of the tax will fall on the owner. This is less the case for buildings, as property taxes may impact incentives to build, maintain or redevelop.⁹¹

A shift to progressive property taxation should be considered a step toward progressive taxation of wealth (including financial assets), as recommended by French economist Thomas Piketty in *Capital in the Twenty-First Century*. He notes that property taxes were first introduced at a low, flat rate and were not intended to reduce inequalities but to guarantee property rights by requiring registration of title. Yet we have not moved much beyond those modest measures since then. The progressive income tax revolution came much later, but progressivity has thus far failed to be applied to property, at least in North America.⁹²

Current practice is that property taxes are determined by the product of assessed values multiplied by a “mill rate” that is determined each year by governments. In years when assessed values rise, the mill rate will generally fall, though overall tax revenues may need to increase due to inflation and other municipal cost increases. This formula is somewhat complicated by jurisdictional issues. For example, only half of the property taxes collected by the City of Vancouver are for its own purposes; 38 per cent goes to the BC government,⁹³ another 9 per cent to TransLink (the regional transit authority) and 2 per cent to Metro Vancouver regional government.⁹⁴

Property taxes in Metro Vancouver are low when compared to other Canadian jurisdictions. The 2014 mill rates ranged from lows of \$3.41 per \$1,000 of assessed value in West Vancouver and \$3.68 in the City of Vancouver to highs of \$6.10 in New Westminster and \$6.30 in Langley City.⁹⁵ In comparison to our nearest competitors, Calgary (\$6.10), Toronto (\$7.23), Edmonton (\$8.01) and Montreal (\$8.27), Metro Vancouver’s property tax rates were the lowest among major Canadian cities.⁹⁶ Lower rates are partly explained by higher assessed property values, but estimated property taxes in dollar terms (mill rate times assessed value) are still lower in Vancouver than other cities.⁹⁷

Property taxes are considered an economically efficient form of taxation with good potential for raising new revenues.

89 Government of British Columbia, Ministry of Community, Sport and Cultural Development, *Local Government Tax Rates and Assessments*, 2015, http://www.cscd.gov.bc.ca/lgd/infra/tax_rates/tax_rates2015.htm.

90 International Monetary Fund, *Fiscal Monitor: Taxing Times* (October 2013), <https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf>.

91 J.R. Kesselman, *A Framework to Guide the Allocation of Municipal Property Taxes: Equity, Efficiency and Economic Development*, prepared for the City of North Vancouver, Economic Development Strategy, Property Tax Sub-Committee, January 2008.

92 T. Piketty. *Capital in the Twenty-First Century* (Boston: Harvard University Press, 2014).

93 The provincial portion is called the School Tax. Historically, property taxes paid for local schools, but this is no longer the case. School Tax collected by the provincial government goes into general revenue, and the spending decision is made separately.

94 Altus Group, *2015 Property Tax Rate Analysis*, <http://www.altusgroup.com/services/property-tax/2015-property-tax-rate-analysis/>.

95 Altus Group, *2015 Property Tax Rate Analysis*.

96 Altus Group and Real Property Association of Canada, *2014 Property Tax Rate Analysis* (September 2014), http://myvictoria.ca/marketupdate/2014_REALpac_Tax_Rate_Report.pdf.

97 Estimated by Huffington Post, “Canada’s Highest, Lowest Property Taxes,” September 27, 2014, http://www.huffingtonpost.ca/2014/09/27/property-taxes-canada_n_5890090.html. Also BC Budget 2016, Table A3 has interprovincial comparisons, http://bcbudget.gov.bc.ca/2016/bfp/2016_budget_and_fiscal_plan.pdf

Progressive property taxes have precedents in Europe, including Denmark, Finland and Germany.⁹⁸ More recently, Ireland introduced a progressive property tax in 2013, at 0.18 per cent on the first one million pounds and 0.25 per cent on any amount above. Singapore has a progressive property tax system with seven brackets ranging from zero per cent to 16 per cent, rates far steeper than any property tax in Canada.⁹⁹

In the BC context, Rhys Kesselman, an economist at Simon Fraser University, proposes a progressive property surtax of 0.5 per cent on value between \$1 million and \$1.5 million, 1 per cent between \$1.5 million and \$2 million, 1.5 per cent between \$2 million and \$3 million, and 2 per cent above \$3 million.¹⁰⁰ Kesselman’s proposal is aimed at curbing speculative purchases, non-resident purchases and vacant properties. It would allow homeowners to credit their previous year’s BC income tax against the surtax, lessening the impact for most resident taxpayers but hitting all outside investors (whether from Toronto or Beijing), those who hide their income (e.g., underground economies) and owners of high-valued homes without commensurately high reported incomes. Kesselman would also allow homeowners to defer payment of the surtax until the property is sold.

Table 2: Indicative annual property surtax based on Kesselman Proposal

Home value	Kesselman surtax
\$500,000	\$0
\$1 million	\$0
\$1.25 million	\$1,250
\$1.75 million	\$5,000
\$2 million	\$7,500
\$5 million	\$62,500

Relative to concerns about external capital in Vancouver real estate, such a property surtax would ensure absentee owners pay tax locally. Yet, Kesselman’s basic structure need not only apply to foreign ownership; it could be aimed at taxing the windfall gains from price escalation over the past 15 years in a progressive manner. This additional revenue could fund new affordable housing.

Based on Greater Vancouver residential sales, about three per cent of properties are worth more than three million dollars, four per cent are between two and three million dollars and 17 per cent are between one and two million dollars.¹⁰¹ It is these homes that should bear the property surtax.

98 UN-Habitat (United Nations Human Settlements Program), *Property Tax Regimes in Europe* (2013), mirror.unhabitat.org/pmss/getElectronicVersion.aspx?nr=3475&alt=1. See Table 6: Differentials and Residential Property Tax Relief Measures, page 29.

99 Inland Revenue Authority of Singapore, *Property Tax Rates and Sample Calculations*, <https://www.iras.gov.sg/IRASHome/Property/Property-owners/Working-out-your-taxes/Property-Tax-Rates-and-Sample-Calculations/>.

100 J.R. Kesselman, “Opinion: Attacking High House Prices by Making Property Tax Progressive,” *Vancouver Sun*, January 12, 2016, http://www.vancouversun.com/business/opinion+attacking+high+house+prices+making+property+progressive/11647690/story.html?_lsa=1e04-2bd7.

101 Information from BC Budget 2016, page 62.

At surtax rates proposed by Kesselman, homes assessed at less than a million dollars (76 per cent of the total) would pay no surtax. Nonetheless, the tax would raise an additional \$1.7 billion per year, an amount that could go a long way toward funding an ambitious affordable/social housing construction plan. Relative to the \$636 billion in assessed value in Metro Vancouver, it amounts to less than a 0.3 per cent property tax increase on average. However, this amount does not include Kesselman's proposal for an income tax offset, as his proposal is specifically targeted at non-resident owners.

Many variations on this structure are possible. For example, the threshold for the surtax need not start at a million dollars and there is no reason why the brackets could not continue to increase above three million dollars. BC Assessment provides a list of the top 100 homes by assessed value: all are valued at more than \$16 million, with a top assessment at \$63.9 million. The total assessed value of these homes is \$2.1 billion. If a 4 per cent property surtax were set on homes valued above five million dollars, the yield would be \$33 million per year, just for these top 100 homes.

A progressive rate structure would also encourage increases in density by subdividing larger parcels of land into multiple-family properties. Property taxes could be shifted more toward land rather than buildings and improvements, providing an incentive for increased density. However, in Vancouver land is already the dominant part of the assessed values. Shifting the base entirely to land would mean homeowners in apartment buildings would be contributing very little property tax toward public services and amenities (libraries and community centres, policing, roads and transit).

Changes to the property tax regime for municipalities would require provincial amendments to the Community Charter, section 197, which specifies that a single rate of property tax be applied for each class and that the tax be applied on both land and improvements (buildings).¹⁰² In Kesselman's proposal, each municipality would have discretion to set its own surtax threshold and rate schedule, and it could retain the surtax revenues for use in local housing initiatives.

In response to concerns about "empty home" investment properties, a group of professors from UBC and SFU called for a 1.5 per cent property tax surcharge on vacant properties held by investors who do not contribute to the local economy. In their formulation, such a tax would raise \$90 million per year in the City of Vancouver and would be redistributed to all residents in the area.¹⁰³

While this proposal creates some incentive for investors to rent out their homes rather than leave them vacant, it does little to address the deeper challenges of affordable housing. Minimally, it could be improved by suggesting that any funds raised be used to support affordable housing construction. More fundamentally, however, the proposal does little to affect the external demand for real estate as an investment property, nor does it address the widening inequality arising from windfall gains made from this real estate.

Homeowner grant

An important critique of property taxes is that they are regressive with respect to income; that is, households with lower incomes pay a higher share of their income in property taxes than higher-income households do. Most affected are seniors living on a fixed and modest income

102 "Property Value Taxes," [http://www.bclaws.ca/civix/document/LOC/complete/statreg/--%20C%20--/42_Community%20Charter%20\[SBC%202003\]%20c.%2026/00_Act/03026_07.xml#division_d2e16796](http://www.bclaws.ca/civix/document/LOC/complete/statreg/--%20C%20--/42_Community%20Charter%20[SBC%202003]%20c.%2026/00_Act/03026_07.xml#division_d2e16796)
103 See BC Housing Affordability Fund, <http://www.housingaffordability.org/>.

A 1.5 per cent property tax surcharge on vacant properties held by investors who do not contribute to the local economy would raise \$90 million per year in the City of Vancouver.

who may have purchased their home a long time ago. This situation can be adjusted by deferring the property taxes owing or by paying transfers to low-income households. Beyond this, there is a strong link between property wealth and income, so a progressive tax structure for property taxes can be justified on equity grounds. Flat property taxes also affect renters, who indirectly pay the tax as a cost component of their rent.

The homeowner grant (HOG), which is paid to homeowners living in their principal residence, is a significant tax expenditure in the property tax system. It provides a \$570 reduction in provincial property taxes for properties under \$1.1 million in market value and is then phased out and eliminated for properties assessed at more than \$1.25 million. The recent surge in Vancouver real estate prices has pushed many new households over one or both of these thresholds. For seniors, an additional HOG amount raises the total grant to \$845. Those over age 55 can also defer their property taxes, though this option has led to some concern about wealthy individuals taking advantage of the deferral program.¹⁰⁴

The homeowner grant is costly to the provincial treasury—\$814 million in 2014–15¹⁰⁵—and represents about half of total provincial property tax revenues from homes. The homeowner grant goes to all qualifying households regardless of their income. Renters, however, receive nothing but bear some of the cost of the property tax through their rent payments.

These homeowner grants should be eliminated and replaced with a refundable income tax credit or a tax benefit that would go to all BC residents.¹⁰⁶ The credit/benefit could be designed to provide greater help to low-income households and then phase out gradually, as is the case for the Canada Child Benefit or Old Age Security programs. This solution would make the property tax system more progressive while assisting seniors who may be asset rich but living on fixed and low incomes.

Homeowner grants should be eliminated and replaced with a refundable income tax credit or a tax benefit that would go to all BC residents.

Property transfer tax

The property transfer tax (PTT) could also play a more prominent role in curbing other ills of the real estate market, such as foreign ownership, speculative activity and vacant properties, that treat real estate as an investment rather than as housing. In 2014–15, the PTT raised over a billion dollars, but these revenues have not been put back into housing. A reformed PTT system would raise some additional revenues, but not necessarily a great deal more if it were used effectively as a policy tool to discourage speculation and high-end purchases from investors.

BC's property transfer tax is 1 per cent on the first \$200,000 of resale value and 2 per cent above that threshold. In 2015–16 it is expected to raise almost \$1.3 billion. Exempt from the PTT are transfers to relatives (treasury cost of \$80 million) and purchases by first-time buyers, provided the property is sold for less than \$475,000 (treasury cost of \$85 million). The latest BC Budget also exempted newly built homes valued under \$750,000, funded by a third tier of PTT of 3 per cent on value over \$2 million.

104 For example, J. Slattery, "Rich homeowners in B.C. aren't paying their property taxes, and it's 100% legal," *Vancity Buzz*, January 7, 2016, <http://www.vancitybuzz.com/2016/01/rich-bc-homeowners-property-tax-deferral-program/>.

105 BC Budget and Fiscal Plan 2015/16 to 2017/18, Table A.1.3.

106 Income tax credits are calculated on each year's tax return, whereas tax benefits are non-taxable income paid out based on the previous year's income. The Goods and Services Tax (GST) credit and Low Income Climate Action Tax Credit are technically tax benefits, although they are confusingly called tax credits.

The UK's property transfer (stamp) tax serves as a model for what BC's could look like.

Given the escalation of house prices, a variety of reforms should be contemplated, such as increasing the starting threshold (perhaps to \$400,000), adding additional brackets and eliminating the tax expenditures. An investigative report by the Globe and Mail revealed that properties held by corporations can transfer shares to a new owner without triggering property transfer tax. Closing such loopholes would raise some additional revenue and prevent unfair gaming of the system.

Most interesting as a comparison for reforming property transfer taxes is the UK, whose December 2014 changes lowered stamp duties for less expensive properties and increased them for high-end ones. The rates now range from zero for sales under 125,000 pounds through progressive rates of 2 per cent, 5 per cent, 10 per cent and 12 per cent that kick in at thresholds of 125,000, 250,000, 925,000 and 1.5 million pounds respectively. Early indications are that this strategy has had some success in cooling the high-end market. In 2015, transactions above two million pounds dropped 7 per cent while revenues in that category increased 16 per cent; transactions above a million pounds remained stable but revenues were up 15 per cent.¹⁰⁷ Another report found that prospective buyers for houses over one million pounds were down 30 per cent in October 2015 over the previous year.¹⁰⁸

In Table 3, the UK's property transfer (stamp) tax serves as a model for what BC's could look like. It shows the additional costs at the high end but also that PTT could be lowered or eliminated for lower-value transactions. In this formulation, the PTT on a home that sold for \$500,000 would drop from \$8,000 currently to \$6,000, but the PTT on a million-dollar sale would rise from \$18,000 currently to \$31,000.

Table 3: Comparison of BC and UK property transfer tax (PTT)

Bracket	Range	BC PTT bracket	UK stamp tax	BC PTT payable up to bracket threshold	UK tax up to bracket threshold
First \$200,000	0 to \$200,000	1%	0%	\$2,000	-
Next \$300,000	\$200,001 to \$500,000	2%	2%	\$8,000	\$6,000
Next \$500,000	\$501,000 to \$1 million	2%	5%	\$18,000	\$31,000
Next \$million	\$1 million to \$2 million	2%	5%	\$38,000	\$81,000
Next \$million	\$2 million to \$3 million	3%	10%	\$ 68,000	\$181,000
Above	\$3 million +	3%	12%	\$ 138,000*	\$421,000*

* Tax at sale value of \$5 million

107 P. Sweet and S. White, "Stamp duty reforms see hike in tax receipts from high end property sales," *CCH Daily*, February 29, 2016, <https://www.cchdaily.co.uk/stamp-duty-reforms-see-hike-tax-receipts-high-end-property-sales#sthash.FPn2c4x8.dpuf>.

108 Slumping commodity prices, a slowdown in the Chinese economy and fear of a UK exit from the European Union may also be factors behind the investment slowdown. B. Moshinsky, "The wealthy are giving up on buying prime properties in London," *Business Insider UK*, November 2, 2015, <http://uk.businessinsider.com/knight-frank-london-prime-index-falling-for-kensington-million-pound-houses-2015-11>.

There is a wide range of possibilities for reform, including design considerations to ensure a more fair system:

- Eliminating the new PTT exemption for newly constructed homes under \$750,000 would raise \$75 million.
- Eliminating the PTT tax expenditure for transferring property to relatives would raise \$80 million. This provision could be retained in certain circumstances, such as transfers between spouses in cases of divorce.
- Eliminating the PTT exemption for first-time homeowners would raise \$85 million.
- Closing other loopholes that enable corporate entities to evade the PTT would raise additional revenues, though the exact amount is hard to estimate.
- Rhys Kesselman has suggested giving purchasers credit for tax paid on previous home purchases in BC, so only homeowners moving up in value would bear the tax.¹⁰⁹

The federal government forgoes four to five billion dollars in income tax per year by not taxing capital gains on the sale of principal residences.

Differential or additional tax rates could also apply to foreign buyers, purchases of second and greater homes, and/or for purchases of rental properties. Starting in April 2016 an additional 3 per cent stamp duty will be applied to purchases of second homes and rental properties in the UK, with revenues aimed at supporting affordable housing.¹¹⁰ Hong Kong and Singapore apply stamp duties of 15 per cent on any foreign buyer (in addition to regular stamp taxes of 1 to 3 per cent). To cool speculative purchases, Hong Kong also has an additional stamp tax of 10 to 20 per cent (depending on value) for properties resold within 36 months (applies to domestic and foreign buyers).¹¹¹

Income tax

The income tax system treats financial assets (outside of registered accounts) and home ownership very differently. The income made from gains on a principal residence is entirely excluded from income taxes. In contrast, financial assets are taxable, both the income (interest and dividends) and the capital gains (though only half of gains are taxable). Unlike most other countries, Canada also does not tax bequests or inheritances, including transfers of wealth as property or the proceeds of property.

It is estimated that the federal government forgoes four to five billion dollars in income tax per year (for all of Canada) by not taxing capital gains on the sale of principal residences.¹¹² This cost translates into another \$300 million in income tax that BC forgoes annually.¹¹³ In contrast, in the United States, capital gains above US\$250,000 (US\$500,000 for a couple) on sales of

109 J.R. Kesselman, "Opinion: A Prescription for What Ails BC's Economy," *Vancouver Sun*, September 29, 2012, <http://www.vancouversun.com/Business/2035/Opinion+prescription+what+ails+economy/7245687/story.html>.

110 S. White, "AS2015: 3 per cent SDLT surcharge for second homes and buy-to-let," *CCH Daily*, November 25, 2015, <https://www.cchdaily.co.uk/as2015-3-sdl-t-surcharge-second-homes-and-buy-let#sthash.Zn39Y7mj.dpuf>.

111 K. Sun, *Foreign Investment in Real Estate in Canada: Key Issues*, China Institute, University of Alberta, Occasional Paper Series 2, no. 3 (August 2015), http://www.china.ualberta.ca/~media/China%20Institute/Documents/Publication/Occasional%20Paper/RealEstate_KerrySun_201508_web.pdf.

112 Department of Finance, Tax Expenditures and Evaluations 2014, <http://www.fin.gc.ca/taxexp-depfisc/2014/taxexp1401-eng.asp>.

113 Forgone federal income tax in BC is approximately 13 per cent of four to five billion dollars, or approximately \$600 million. BC income tax is about half of the value of federal income tax, so forgone provincial income tax revenue is about \$300 million.

owner-occupied homes are subject to income tax (however, mortgage interest can be deducted from income tax in the US).

The tax treatment of capital gains on homes is a long-held aspect of the tax system that encourages home ownership and reinforces the advantage of those who own property. Changes to capital gains taxation could be contemplated as part of the property transfer tax system or, subject to negotiation with the federal government, as part of the income tax system. For example, a modest proposal would be to allow home owners to earn up to \$500,000 in capital gains income from housing during their lifetime without having to pay tax on it (but tax any gains above that amount). This solution would mean that seniors, for example, selling their home and downsizing within the same market would still be able to afford a new home. And such a tax could help to cool down housing prices.

Conclusion: Putting the pieces together

A PROLONGED RESIDENTIAL CONSTRUCTION BOOM has not held the answer to affordability. The private sector has had little incentive to build new housing for households with low incomes and no wealth. Indeed, marketing new housing supply as exclusive and luxury investment properties, aimed at wealthy individuals wherever they may actually live, only exacerbates these affordability problems.

This paper has argued for cooling the market by imposing restrictions on external capital, adding new density across the region's single-family areas and investing through the public sector in a range of affordable housing options. Affordable housing should enhance the city's neighbourhoods; it gives full meaning to the widely accepted term "complete communities." As in some European cities, top architects could be awarded contracts to design attractive buildings, thereby breaking social housing from the prejudices and stigmas that have resulted from less appealing construction in the 1960s and 1970s.

Because residential construction is also an economic sector, maintaining high levels of investment and job creation in residential construction over the course of several decades would also be beneficial. The idea is to break from cyclical investment patterns in a way that also locks in new housing stock as affordable on an ongoing basis. Total new home construction has been close to 20,000 units per year in the region.

In terms of a building program, the affordable housing for the future should be financed out of the windfall gains to homeowners from rising housing prices. This is central to ensuring greater opportunities for all, particularly the next generation. In addition, new provincial funds should support existing affordable housing stock through energy efficiency retrofits and investments in other deferred repairs and maintenance.

The private sector has had little incentive to build new housing for households with low incomes and no wealth.

A more progressive property transfer tax system can improve other problems in the housing market, such as speculation/flipping and vacant homes.

New affordable housing could be financed through a range of revenue options, which would simultaneously treat taxes on property more fairly and reduce wealth inequality. In particular, taxing the windfall capital gains from house price inflation, and making property taxes more progressive, with an emphasis on more expensive properties.

In addition, converting homeowner grants into a broad-based credit for lower and middle-income households would make the property tax system more progressive. A more progressive property transfer tax system can improve other problems in the housing market, such as speculation/flipping and vacant homes.

The biggest challenge in achieving affordable housing is political. The framework in this paper pushes back against the main beneficiaries of skyrocketing housing prices, namely the real estate, development and construction industries, as well as homeowners who have benefited from windfall gains. This political economy makes change a challenge, as far too many politicians at all levels view meaningful property tax reform as a can of worms.

Multiple levels of jurisdiction complicate matters, and any significant plan will require a coordinated approach that involves federal, provincial and municipal governments and community groups. But the state of the housing market is such that perhaps the time has come to recognize that strong public interventions are required. Affordable housing will undoubtedly be an issue in the coming 2017 provincial election, so it would be a good time for all parties to develop comprehensive plans to compete for votes. The ideas in this paper are one contribution to show the key elements of an affordability framework.



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