

## Clearing a pathway to home ownership



In the current real estate market of rising prices, low inventory and multiple offers, renters throughout Greater Vancouver face major hurdles when they set out to buy an affordable home.

Saving a down payment ranks first in a region where incomes have fallen far behind home prices.

Second is finding an affordable home within reasonable commuting distance. There are so many home buyers looking for affordable homes and the supply is so limited everywhere in Greater Vancouver, many renters are forced to stay on the sidelines.

Third is saving for the Property Transfer Tax (PTT). Renters who finally scrape together a downpayment and locate an affordable home, are often shocked to discover how much the PTT costs.

For example, a renter buying in Maple Ridge, one of the region's most affordable communities, will pay a benchmark price of \$747,000 for a modest resale townhome. The PTT adds a whopping \$12,940 even if the renter is a first-time buyer, because the PTT exemption price threshold for a resale home is only \$525,000.

### A renter buying a Maple Ridge townhouse

| Benchmark price | Property Transfer Tax | Total Price | Down payment | Total loan | Mortgage rate | Monthly principal & interest |
|-----------------|-----------------------|-------------|--------------|------------|---------------|------------------------------|
| \$747,000       | \$12,940              | \$759,940   | \$49,700     | \$697,300  | 6.49%         | \$4,666.45                   |

Figures are current to April 30, 2023. Benchmark price for a townhome in Maple Ridge. Down payment 5% on the first \$500k then 10% on amount above \$500k/less than \$1m. Mortgage rate is for a 5-year conventional mortgage at [6.49%](#). PTT calculated at 1% on first \$200,000; 2% on remainder up to \$3 million.

If this buyer has a life change in the first year of owning, for example they must move for a better-paying job or to care for an aging relative, they will pay the newly proposed flipping tax if it's approved. If the unit is a presale, they would also pay capital gains tax.

If the new home buyer has to sell, finding a rental unit will be close to impossible given the region's near [zero per cent vacancy rate](#) and increasing population.

In BC, about one-third of all households are renters ([669,450 households](#)). Of these renters, 72 per cent feel so shut out of the market, they have given up on ever owning a home, according to a new [Ipsos survey](#).

This same survey finds that 77 per cent of respondents agree that owning a home is the best investment a person can make.

REALTORS® are seeing a sense of urgency among renters who perceive the possibility of home ownership slipping away.

The Real Estate Board of Greater Vancouver has identified three ways the government can respond to the challenges facing renters through policy measures aimed at increasing affordability.

### 1. Property Transfer Tax (PTT)

In 1987, the PTT was brought in as a wealth tax to discourage speculation. Then the average price of a detached home in Greater Vancouver was \$147,485 and the PTT was \$1,474. The wealth tax applied to only 5% of all sales since 95% of homes sold for less than \$200,000.

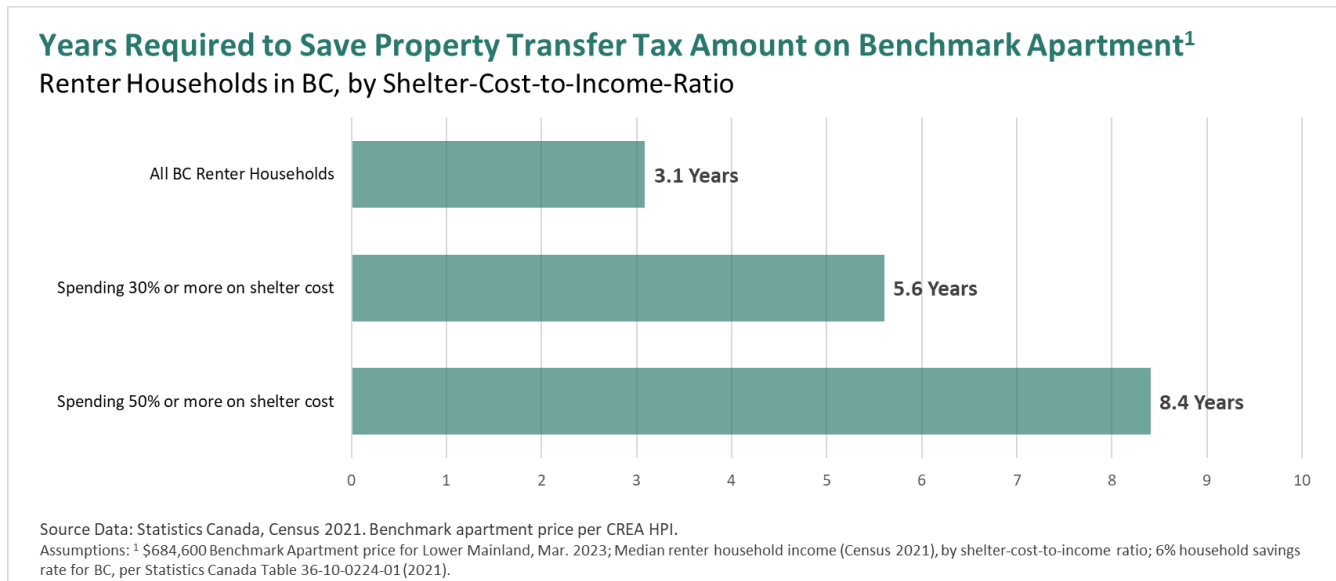
Today the benchmark price for that same detached home is \$1,861,100 and the PTT bill adds \$35,222 to the cost. Every time someone moves and buys another home, they'll pay the tax.

In 36 years, the one per cent ceiling of \$200,000 has not changed, while home prices have increased 1,162 per cent.

In 2022 there were no homes for sale in Greater Vancouver for under \$200,000.

- Of the 8,396 detached homes sold, just 1.4 per cent (120) sold for less than \$525,000 the PTT price threshold at which the buyer can qualify for a PTT exemption;
- Of the 4,214 townhomes sold, just 1.8 per cent (75) sold for less than \$525,000;
- Of the 15,597 apartment condominiums sold, just 14.4 per cent (2,239) sold for less than \$525,000.

The PTT also significantly lengthens the time required to save to buy a condo in Greater Vancouver. Renter households who are already the most economically disadvantaged, as represented by those paying more than 30% on shelter costs, are the hardest hit by the PTT. For these households, the PTT can lengthen the time needed to save to achieve home ownership by five years or more.



## Recommendations

- Conduct a comprehensive review of PTT, which hasn't been done since the tax was implemented in 1987.
- Remove the PTT on any home costing less than \$750,000 – for both new and resale homes.
- Increase the First-Time Home Buyers' Program PTT exemption threshold on resale homes to \$750,000 from \$525,000 to match the newly-built homes exemption.
- Exempt presales from the PTT.
- Index PTT thresholds using the consumer price index, and make adjustments annually for the 2% and 3% thresholds on a sliding scale tied to BC Assessment values.
- Use PTT revenue from homes priced at more than \$750,000 to provide financial incentives to renters buying missing middle homes in walkable, mixed-use, transit-oriented communities with smaller housing choices.

## 2. Flipping tax

This proposed tax, designed to prevent speculation, will have negative spillover effects which penalizes renters wanting to buy a home.

Younger households tend to move most frequently [according to Statistics Canada](#), and this is most often due to changes in life circumstances such as a new job or new family member. Younger households are also most sensitive to expenses such as mortgage costs and taxes. The flipping tax would create a significant disincentive for younger households to move.

The downstream consequences will hurt renter households the most.

For example, consider a young household that buys a condo, then has a child, and must move to gain more living space. The flipping tax may be so cost-prohibitive that this household cannot move from their recently

purchased and affordable condo. Because of this, a renter household looking to enter the market is now frozen out of home ownership because the owner household cannot move due to their inability to pay the tax.

When taken in aggregate, these negative spillover effects will severely hamper mobility up and down the housing ladder, and their order of magnitude stands to be enormous. The flipping tax will exacerbate a dire scenario for renter households who already face among the lowest vacancy rates and highest rental rates in all of Canada, effectively locking out many from the ownership market forever.

If the flipping tax is applied to presale units, it will discourage vitally needed investment, slowing down the pace of new construction and creating other negative distortions in the housing market.

### Recommendations

The regulations for the flipping tax must:

- include exemptions so the tax doesn't unfairly penalize those most likely to move;
- ensure new construction homes are exempted from the tax; and
- ensure the tax doesn't discourage investment in secondary suites that may be created under the province's new secondary suite policy.

### 3. Rental supply

With a near-zero vacancy rate, communities throughout Metro Vancouver are desperately in need of new purpose-built rental buildings. Rental housing developers face escalating costs, making projects less viable. Two examples of escalating costs are:

- The Goods and Services Tax (GST). In a new rental complex, when the first unit is rented, the builder is deemed to have sold and repurchased (self-supplied) the rental complex and must pay the GST. The GST also applies to the building of not-for-profit housing which may receive grants from government to underwrite its development costs.
- Increasing mortgage loan insurance premium rates: Canada Mortgage and Housing Corporation (CMHC) recently [increased rates for multi-unit properties](#).

### Recommendations

- **GST exemption for not-for-profit rentals:** the province should endeavour to convince the federal government to exempt new not-for-profit rental developments from paying GST.
- **Create a provincial rebate program** for the GST payable on new rental construction. Rebate funding could come through interest payments made to the province from programs such as [HousingHub](#) including the [Affordable Home Ownership program](#) (AHOP) and the PTT.
- **Ultra-Low-Cost loans to developers:** use funds from [existing revenue streams](#) including the PTT and BC Housing revenue streams, to provide ultra-low-cost loans to developers building rental buildings, without requiring that these new buildings meet affordability standards which render the projects financially nonviable.

### Who we are

The Real Estate Board of Greater Vancouver (REBGV) is an association representing more than 15,000 REALTORS® and their companies.

REBGV believes these recommendations will improve housing outcomes for all British Columbians by helping renters get a foothold on the housing ladder, and by clearing new pathways to home ownership.

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