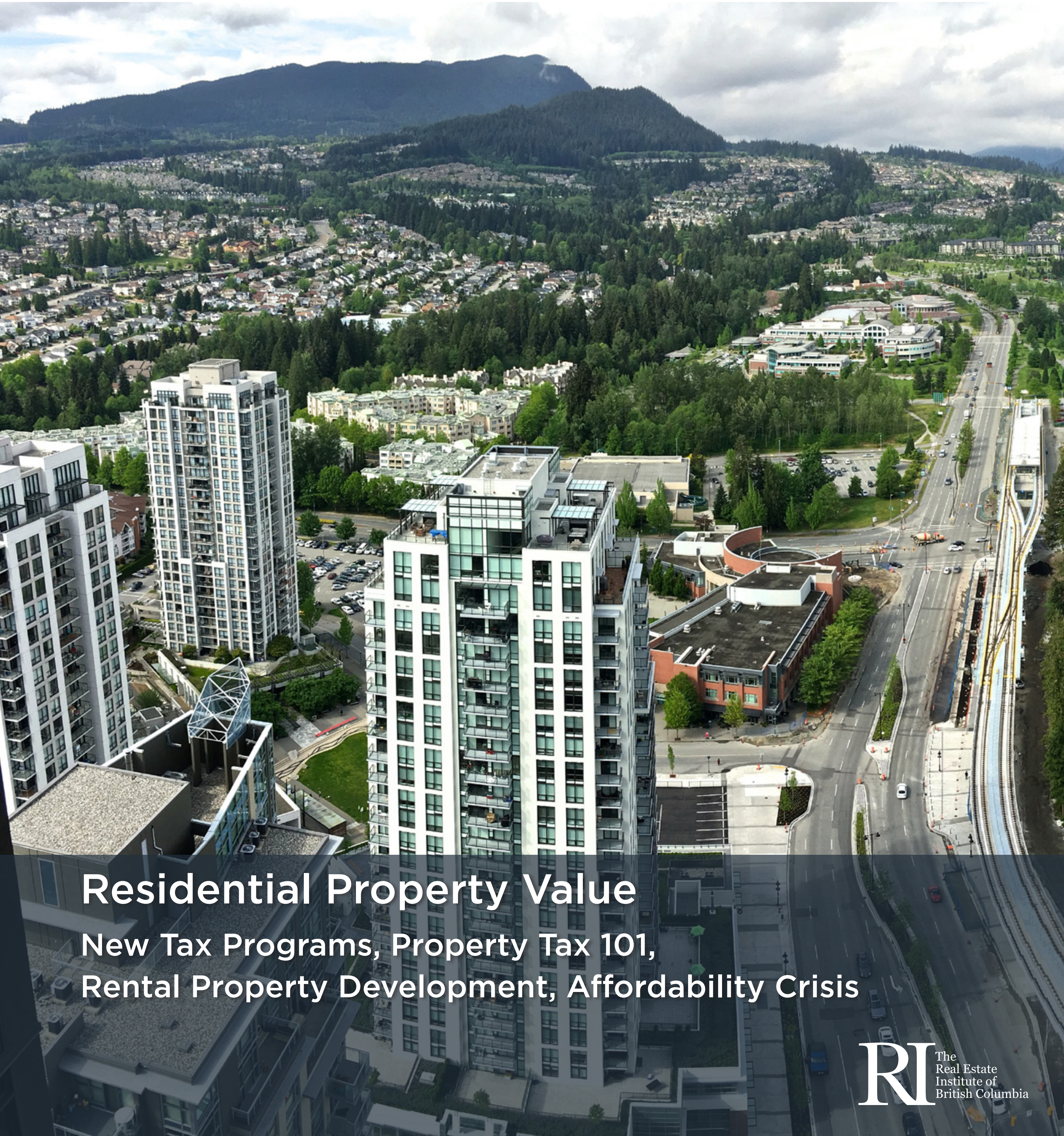
SUMMER 2016 | VOLUME 44 | NUMBER 2

INPUT

LAND AND REAL ESTATE
ISSUES IN BRITISH COLUMBIA



Residential Property Value

New Tax Programs, Property Tax 101, Rental Property Development, Affordability Crisis

The Real Estate Institute of British Columbia

INPUT

Input is the official publication of **The Real Estate Institute of BC (REIBC)**.

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The Real Estate Institute of British Columbia

PRESIDENT'S MESSAGE

ANDREA FLETCHER, RI
REIBC PRESIDENT

What an honour it has been to be REIBC's president during this banner year! We have accomplished so much on so many fronts: rebranding, implementing our bold new strategic plan, a new letter of understanding with AIC-BC, offering engaging events, and creating our new Strata Governance Certificate Program from light bulb to first paying clients. For me personally, the most significant highlight has been gaining traction around membership stability and growth.

At 26 years old, when I first applied to become a member of REIBC, I never imagined that I would have a chance to become the president. As I look back on all of the industry relationships I have built during my commercial real estate career, some of the most meaningful and life elevating are those with fellow RIs.

I know that a huge part of my career success has come from the confidence that key REIBC members have instilled in me throughout my journey. They generously took me under their wing and offered support when I needed it. Those connections when I was young were—and are—priceless.

A pearl of wisdom I gained from my many years of volunteering with REIBC is in a line from a favourite song of mine: "you get what you give." It doesn't matter what stage of your career you are in, I highly recommend that you harness the volunteer mindset and get involved. It is such a privilege to be involved and on the pulse of what is happening behind the scenes in our fast-paced industry. As I say, your net worth is determined by your network.

I thank REIBC's many volunteers for sharing their precious time to keep us strong and flourishing and the staff for their hard work. From the bottom of my heart, thank you all for your camaraderie and support this year. We are on an upward trajectory and have a bright future.

INPUT | RESIDENTIAL PROPERTY VALUE

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COVER: View from Coquitlam Town Centre highrise toward Town Centre Park and Lafarge Lake. Photo by Richard Stewart.

ARTICLES

NOTES

COLUMNS

DIRECTORY

FROM THE EO'S DESK

BRENDA SOUTHAM
EXECUTIVE OFFICER
AND EDITOR-IN-CHIEF

Escalating real estate prices are a hot topic these days, and the fall-out is yet unclear. Is it a boom or a bubble? Some argue that we are experiencing an affordability crisis. Josh Gordon of SFU's School of Public Policy helps us to see the big picture.

Rental housing—why isn't it more affordable? It's not because the builder does not want to build affordable homes, it's that with the price of land and a number of other factors the cost to build is too high. And something that few talk about or—I would bet—even think about: what about the mobile home community—who resides there, and what happens when that land gets sold for redevelopment? Where do all those people go? Read on to also learn more about how property taxes are calculated and how to defer paying those same taxes (if you are of a certain age).

Our new schedule for the summer edition has it arriving in your mailbox a few weeks later than before. The timing has been fortuitous. We've been rewarded with an "Ask a Lawyer" column that captures a topic everyone is talking about: the new provincial and Vancouver tax programs aimed at real estate, sparked by sky-high prices and a miniscule rental vacancy rate. The details are finally coming to light, and columnist John McLachlan has sifted through the debate to comment on whether these programs will be effective. (Please note that all other authors wrote their columns in the spring of this year, prior to these tax program announcements.)

A giant thank-you to the board whose term ended on June 30, 2016, and a warm welcome to the new board whose term started on July 1. We've profiled the new governors so that you can "meet" them as they take office.

As you receive this edition the summer will almost be over. We will be getting ready to settle into the fall and looking forward to strategic planning sessions and board training. I hope you are having a great summer and hope to see you soon at upcoming events.

CONTRIBUTORS

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4

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7

WE WANT TO HEAR FROM YOU.

Please let us know your ideas for upcoming issues and how you like the magazine—and check out our Facebook and Twitter pages for up-to-the-minute information on REIBC activities.

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5 Richard Stewart is serving his third term as the mayor of Coquitlam. Before being on council, Richard was MLA for Coquitlam–Maillardville. Richard has chaired the National Housing Economic Research Council, helped establish BC's Homeowner Protection Office, and developed BC's consumer protection regulations associated with builder licensing and home warranty. Former publisher/editor of a housing trade magazine, Richard has worked on building technology and building codes, consumer housing issues, land use, community design, and government relations/communications.
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Contact Brenda Southam at info@reibc.org

UPCOMING ISSUES:
HAZARD MANAGEMENT
SITE C
DATA AND THE CITY

SEEING THE BIGGER PICTURE

WHY VANCOUVER'S REAL ESTATE SITUATION CAN'T LAST

Joshua Gordon

The real estate situation is top of mind for many British Columbians these days. In a recent poll, "housing/poverty/homelessness" was ranked as the highest priority facing the province by 22% of respondents. "Economy/jobs," which had previously been the top priority, fell to second place at 20%, slightly ahead of health care at 17%.[1]

This top ranking is for good reason. The real estate situation in the province, and Vancouver in particular, has gotten out of hand. Perhaps the most obvious indicator of this is an average home price to income ratio of around 13 in Vancouver. This compares to the historical average of around 3 in Canada, and to the ratio at which housing is considered "seriously unaffordable," which is 5.

There has been a lot of debate about what is causing this extreme ratio and the affordability issues it entails. I mostly leave the debate about causes to one side here.[2] What I tackle instead is the related debate about whether the prices we see in Vancouver and adjacent communities are "sustainable," or whether we are in some kind of a bubble.

Usually this is a fruitless debate. One person points to a long-term price chart and says, "Look, it's basically always going up, and we have limited land so what's going to change that?" And then the other side says, "Well sure, but we can't always extrapolate from the past and the prices are way too high relative to incomes, so eventually this thing has to burst." And since the former person usually owns and the latter person usually rents, they agree to disagree.

What I hope to do here is to try to move beyond that type of a debate, at least for a moment, by outlining the major harms (and false benefits) associated with the present real estate situation in Vancouver. By doing so, what I hope to show is the following: even if the current real estate prices in the city were in some sense sustainable "economically," which is doubtful, they are not sustainable politically. Once we recognize this, the case for policy action becomes clearer.

THE HARMS OF THE AFFORDABILITY CRISIS

There are a few obvious harms associated with the current real estate situation. The first is major generational inequity. People who are reaching the age when they would normally hope to buy are facing unprecedented challenges in Vancouver. Housing prices, especially compared to their incomes, are daunting and often unattainable.

To give one example, the benchmark price for a detached home in Metro Vancouver was $1.4 million in April 2016. The composite benchmark price for the region was $845,000 (all types of housing), and $475,000 for an apartment. Needless to say, if we look at the same figures for the City of Vancouver, the picture becomes even more discouraging.[3]

Compared to a median pre-tax family income of around $80,000, and around half that for single individuals, it is fairly obvious why this is being called an affordability crisis. For each of those benchmark prices listed above, the relevant 20% down payment would be $280,000, $169,000 and $95,000. (Granted, most don't aim for a 20% down payment these days, but that brings problems of its own.) After taxes, rent, and other basic expenses, saving this much would take a very long time even for those with well above median incomes. And these are the benchmark prices, so the vast majority can forget about owning at the high end. Other measures, such as the Royal Bank of Canada's measure of affordability, tell a similar story about out-of-reach housing. In short, young families have to stretch themselves to the limit financially if they hope to get into the market, and many are simply unable to get a toehold.

1 Jen St. Denis, "Housing and homelessness displace economy as BC residents' top concern: poll," *Business in Vancouver*, May 10, 2016.

2 For a discussion of this debate, see Josh Gordon, *Vancouver's Housing Affordability Crisis*, Centre for Public Policy Research, SFU, 2016, www.sfu.ca/mpp/centre_for_public_policy_research/cppr.html.

3 Data on house prices are available at the Real Estate Board of Greater Vancouver website, www.rebgv.org/news. Benchmark prices strip out outliers at the high and low ends, and so will understate average house prices.

The younger generation is thus facing housing challenges that the older generation did not. Yes, interest rates were considerably higher in the 1970s and 1980s, but high interest rates cannot come close to matching the financial strains imposed by today's prices. This has been shown repeatedly.[4] What it also means is that to the extent the older generation are selling their homes, this is essentially a transfer of wealth from the younger generation to the older one, all because the latter were born before the former.

For some in the younger generation, money to enable buying a house may come back to them in an inheritance, though that won't help many for a decade or two. In the interim, though, some of those windfall gains will be spent on comfortable retirements (understandably). For some fortunate millennials, these gains may also come back in the form of a gift/loan from the Bank of Mom and Dad, but not usually enough to compensate for the higher prices. For many others, however, such as newcomers and those whose parents don't own, this will be a transfer of wealth, full stop.

To the extent that this is based on the land constraints the city faces, this might well be inevitable, but it doesn't change the reality of the wealth transfer. But the crisis is not primarily the product of constrained geography, as I've argued elsewhere; it is the product of bad policy, which in particular has encouraged large flows of wealth from abroad and "de-coupled" the housing market from local incomes. This is a policy choice that is being made largely by the boomer generation, which has benefited from the home equity gains of the past few decades. Not surprisingly, young people resent this situation, as they perceive quite rightly that they are being screwed. They are being kicked out of their childhood cities in many cases, or made to live under stressful amounts of debt, and this is a blow that will not be ignored or forgiven.

Second, because much of the crisis is being driven by foreign money, the real estate situation is weakening communities and leading to greater resentment of the situation than would otherwise exist. To the first point, despite sky-high housing prices, many Vancouver homes remain either unused or under-used. While there is legitimate debate about the extent to which this is the case, and some have exaggerated this phenomenon, there is little doubt that there is a surprising amount of vacant or "lightly used" housing, given the city's prices (think "opportunity costs").[5] As a result, some parts of the city have become much less vibrant, as those who own housing on the basis of foreign money usually have less intense connection to the city than do those who work in the region.

Moreover, because this displaces those who are working in the region to areas farther away from the core, and into stressful

4 See, for example, "Code Red: Rethinking Canada's Housing Policy," Generation Squeeze, May 25, 2016, www.gensqueeze.ca/code_red_rethinking_canadian_housing_policy.

5 For a discussion of the recent Ecotagious report and some of its shortcomings, see the report cited previously: *Vancouver's Housing Affordability Crisis.*

commutes, among other things, this dynamic breeds resentment. People are aware of the dynamics at play and it does not sit well with them. Families and friend networks also get separated by greater distance, and this leads to less time for social interaction and weaker social support. Combined with the affordability challenges outlined above, is it any wonder that Vancouverites expressed the lowest levels of life satisfaction among the 33 largest Canadian cities?[6]

Finally, the housing price surge will undercut itself in the medium term with respect to the economic viability of the region. This is only beginning to starkly emerge, but will intensify with time. It is based on the simple logic that workers, especially highly educated workers, will move away if they are not compensated for high housing costs.[7]

The provincial government has touted the latest economic growth figures as vindication for their approach, but when examined closely much of the job growth revolves around construction and real estate-related activity.[8] To the extent that other sectors have expanded, we are largely witnessing the knock-on effects of that surge in real estate-related employment and the wealth and debt effects of a roughly 25%–30% annual increase in property prices (i.e., both serve to draw consumption towards the present at the expense of the future). Rather than economic growth driving the housing boom then, as some have claimed, it is the reverse.

Vancouver employers not directly connected to real estate have worried for some time about the long-term implications of the housing bubble. A survey of employers conducted by the Vancouver Board of Trade last year found that 49% had experienced difficulties attracting or retaining top talent because of high housing costs, while 71% said that such costs had harmed their ability to expand. Only 7% of employers thought that high real estate prices had helped them expand in some way. This matches up with increasingly desperate calls for action from leaders in the city's tech sector who are seeing their workers poached.[9]

It will take time for this large-scale "brain drain" to take full effect. This is because workers have social networks that tend to keep them in place. This "stickiness" in the labour market has so far benefited the local economy, preventing the drawing away of yet more top talent, but it will work against it if there is a large exodus of young talent: once these people establish social networks in other cities, that stickiness will hold them there, even if affordability improves substantially here. It is thus crucial that action be taken quickly in order to prevent losing such workers for good. Regardless, it is clear that the ability of

> Home equity gains are not like other types of wealth gains. They are much less beneficial. This is for a simple reason: if the price of your house goes up, there is a very strong likelihood that the prices of all the houses around you will have gone up a similar amount. If you want to "cash out," you either have to downsize (since condo prices have gone up less dramatically) or you have to move cities.

Vancouver employers to generate leading-edge products and high-paying jobs will be severely undercut if the affordability crisis remains unaddressed, and they are rallying in support of policy action.

One of the striking features of the current situation is that Jock Finlayson, vice-president of the BC Business Council, and the leftist Canadian Centre for Policy Alternatives are on the same side of the debate, calling for significant and immediate action to address affordability.[10] When that happens, you know there is a broad political coalition for action, and this again points to the unstable political foundations of the status quo.

FALSE BENEFITS: THE ILLUSION OF HOME EQUITY GAINS

The harms above are, some argue, compensated by rising home equity. Along with the short-term spur to growth and jobs, this alleged benefit has undoubtedly given pause to many citizens when it comes to actions that might address the affordability crisis. Homeowners are a majority of voters, after all, and certainly some would ideally like to retain their equity windfalls. Indeed, the provincial government has apparently sided with these people, arguing that it is mainly concerned with "protecting home equity," despite the harms noted above.

6 "Vancouver named unhappiest city," *Vancity Buzz*, April 20, 2015.

7 There is a good case to be made that this dynamic has already been felt in a substantial way, given Vancouver's historically high housing prices. Opportunities for work in leading-edge companies are very limited in Vancouver already. It is no mistake that the median income for an individual with a bachelor's degree is the lowest among the major Canadian cities by some margin.

8 "A look inside B.C.'s booming April job numbers," *Business in Vancouver*, May 9, 2016.

9 *Housing Affordability's Effect on Businesses in Vancouver*, Vancouver Board of Trade, August 2015. See also, Ryan Holmes, "Without affordable housing, Vancouver risks becoming an economic ghost town," *National Post*, February 3, 2016.

10 "Report on Vancouver's economy highlights threat of residential real estate disconnect," *Business in Vancouver*, May 18, 2016. See also, Marc Lee, *Getting Serious About Affordable Housing: Towards a Plan for Metro Vancouver*, CCPA, May 18, 2016.

They appear to be relying on this presumed "silent majority" come May 2017.

However, properly understood, home equity gains are not like other types of wealth gains. They are much less beneficial. This is for a simple reason: if the price of your house goes up, there is a very strong likelihood that the prices of all the houses around you will have gone up a similar amount. If you want to "cash out," you either have to downsize (since condo prices have gone up less dramatically) or you have to move cities. (Otherwise, if you sell into a high market, you buy into a high market and your net position is a wash.) This means that in order to "cash out" you might have to sacrifice many of the things you cherish in your life: your neighbourhood walks and coffee shops, the careful work you put into your current house, the easy commute to work, or, most importantly, your family and friend network. For obvious reasons, most people don't want to give these things up. And so their home equity gains mean very little to them, at least in the short or medium term.

This is in stark contrast to something like a major increase in your stock portfolio. That's easy to cash out, and doesn't require major sacrifices or inconveniences to carry out. It's true that some could "cash out" and rent, but a policy that encourages people to bet on the fluctuations of the housing market with their largest asset is not a smart one. Many own because they want the benefits of ownership; renting holds no allure for them.

The people benefiting from the status quo are therefore much fewer than commonly assumed. They are mainly the real estate agents whose commissions have increased sharply, the developers who are able to sell property at even more than they expected, construction firms, and some people who are ready to "cash out."

Who are those people who might "cash out"? Mainly older owners who may decide to retire in a downsized place or in a smaller community in the province (bringing price pressures elsewhere) and middle-aged people who are planning on leaving the city for good for another job somewhere else. It is not clear why Vancouver-oriented policymakers should overly concern themselves with the latter group, but the former group is likely to have some sway. Yet this is perverse: these people will have often seen the largest equity gains over time. So the status quo tilts the gains to the winners, and leaves the people who will make up the region's future with the short end of the stick. It is hard to see how this represents a sustainable political situation, especially as the older generation passes from the scene electorally.

In case the impression is one of an indifferent older generation profiting from the struggles of the younger generation, let me be clear: many older Vancouverites resent the present situation and sympathize with younger generations. This is evident from the Angus Reid polling from last year, which demonstrates the broad and intense frustrations of Vancouverites with the situation.[11] Even older homeowners want policy action in large numbers (majorities, in fact), despite their personal gains from the present situation. Those who are struggling in the current situation are often their kids. These older homeowners also worry about whether those kids will be able to live near them if the status quo continues.

BUILDING RESISTANCE TO THE STATUS QUO

What we see then is gradually intensifying opposition to the status quo. In the recent poll cited at the start, BC residents gave their lowest approval rating to the provincial government's handling of the housing file. A stunning 71% of respondents said that the government's approach was "bad" while only 15% said it was "good" (13% were "not sure"). Given that housing now tops the priority list of BC residents, this is ominous news for the provincial Liberal government in the lead-up to the next election.

11 "Lotusland Blues," Angus Reid, June 2015, http://angusreid.org/vancouver-real-estate/.

So far the government has only offered token gestures to tackle the affordability crisis. It appears they are too tied financially to the development industry and related sectors to do anything concerted.[12] But if the affordability crisis does not abate, they are going to come under increasing pressure to tackle it. And make no mistake, this will require a price correction of some sort. Wage or income gains have not been strong in recent years in Vancouver and would have to be well above recent trends if they were ever to make more than a small dent in the affordability crisis.

The policy levers are at their disposal should they wish to use them. Taxes on foreign ownership of various sorts have been proposed, for example, and they would likely have a significant effect on prices. The longer they do not act on the file, the more they will be damaged in the court of public opinion, perhaps irredeemably so. And this is saying nothing about the underlying economic processes at work, such as the dangerous buildup in debt leveraging and the dependence of the market on a worrisome credit bubble in China.

In the process, there will be collateral damage. The reputation of the real estate industry has already taken a hit. Sometimes lacking the tools to go after the more flagrant unscrupulous practices of recent years, and sometimes the will, the industry has been blasted from all sides. Even the provincial government is now turning on the industry in an attempt to shift some of the blame for the housing crisis. People who will have worked in the industry for many years, and upheld high standards, will be swept up in this, through no fault of their own.

Moreover, because of the unique institutional position of real estate representatives, it has been hard for some industry leaders to speak frankly about the problems and perils of the current situation.[13] Few clients want to think that their house is going to be worth less than what they buy it for, and so industry leaders have been pressed to make the increasingly implausible case that the price surge is based on local fundamentals and that all is well.

When this market comes down, through market processes or political action, the industry will therefore have a lot to answer for. The sooner the government steps in to address the runaway housing prices, the sooner the industry will not be pressed to defend the indefensible. Eventually, the reputation of the industry will recover, and those who abide by high standards will regain their place at the forefront of the industry, to the benefit of Vancouverites.

Photo 1 by Carolyn Coles (flickr). Photo 2 by Craig Paterson (flickr).

12 See, for example, Gary Mason, "Donor lists reveal BC Liberals greed for power," *Globe and Mail*, April 5, 2016.

13 See William McCarthy, "When realtors have their way, a crisis follows," *Globe and Mail*, May 15, 2016.

ARE WE ON THE CUSP OF A RENTAL HOUSING RENAISSANCE?

David R. Podmore

Of late, housing industry association literature and newsletters are replete with stories of new rental housing developments, the rental housing development incentives of various municipalities, and the crushing need for more affordable alternatives in the face of dramatically escalating housing demand that cannot be fulfilled for many individuals and families at low and middle incomes.

There is an interesting paradox in the timing of these stories—at a time when we are experiencing unprecedented escalation in land, development, and housing costs, we are also witnessing a resurgence of private market delivery of new rental housing, particularly in Canada's two most expensive housing markets—Toronto and Vancouver. These seemingly contradictory circumstances invite one to ask whether we are experiencing a rental housing renaissance.

In both the Greater Vancouver and Toronto markets (as well as several other major Canadian cities) there has been a notable resurgence of interest in rental housing development. It is reasonable to conclude that much of this interest has been driven by the current ultra-low interest rate environment and the attractiveness of quality multi-family rental properties to long-term, patient, and very well-funded investors (who are struggling to find limited-risk investment opportunities with even marginally acceptable returns). It is no surprise then that these investments are particularly attractive in the current low interest rate environment to major Canadian pension plan and institutional investors. Such investors provide a ready market for acquisition of multi-family rental housing product developed by commercial builders, often at cap rates in the 3% to 3.75% range, providing a "lift" to the builder on sale despite high land and construction costs.

These developments frequently proceed based on incentives provided by the municipality and are often characterized by high market rental rates that can only be achieved in prime market locations—and therefore contribute little towards addressing the needs of low- and middle-income families. In some cases these attributes are partially mitigated by municipal restrictions in exchange for development incentives. While it is good that such developments increase the available supply of rental housing, it is unlikely to effectively address the more urgent and long-term housing needs of a broad cross-section of our communities.

CONSTRAINTS

Fortunately, many municipalities and government agencies have increased or are moving to increase incentives that should help to address affordability. In many communities these incentives can make a meaningful difference in terms of housing affordability, but in the very expensive urban areas, especially in the Greater Vancouver and Toronto regions, incentives such as density bonusing, parking relaxations, waivers of development and related permit fees, relief from development cost levies and community amenity contributions, and even taxation relief are likely not enough in the face of high and escalating land and construction costs.

In the Vancouver region, more so than in Toronto, the biggest constraints today to developing reasonably priced rental housing are rapidly escalating construction costs and land prices. Assuming the developers and builders leading the design and construction are knowledgeable and competent, the procurement process should ensure that construction costs are competitive and optimized.

Land cost is a different matter, and especially in heated markets is largely beyond industry or government control. Some of the incentives and relief provided by municipalities can help alleviate the impact of escalating land costs, but with land costs in many prime areas in Vancouver (high-value locations that are also good rental locations given proximity to transit, schools, and amenities) exceeding $400 per buildable square foot, the ability to build and provide rental rates that meet the needs of low- and middle-income families is severely strained.

Without further initiatives to address the implications of high land costs, delivery of affordable rental housing will continue to be limited. Developers working with the community are producing market rental housing often with monthly rents in the $3.00 and even $4.00 per square foot range, but this is hardly affordable for many. Everyone in the community who contributes to our economic and social well-being should have access to good-quality affordable rental accommodation. The long-term consequences of not providing this have implications for the economy and our lifestyles that are not attractive.

WHAT CAN BE DONE?

So, what further can be done to address delivery of affordable rental housing in our communities? First, it is great that we can build on the many program initiatives that have been championed by many progressive municipal governments and select provincial and federal agencies. Second, we can re-examine earlier programs that were effective but were abandoned, often due to financial or, frequently, political constraints. Third, we can revisit arrangements that have in the past helped to address the impact of high land costs on development economics (rental rates). And finally, with a more open and engaged dialogue between those that are

most interested in developing and maintaining affordable market rental properties for the long term and the municipalities and agencies committed to making this work, we can find solutions that will make a difference.

There are many good incentive models now being offered by progressive municipalities, and adoption of similar incentives by more municipalities would broaden the opportunities to develop rental accommodation, often in locales with lower land costs suited to lower-cost types of construction, preferably in conjunction with transit improvement and expansion programs. An example of a defunct incentive program that should be re-examined, refined if necessary, and reintroduced is the Residential Rehabilitation Assistance Program, which was effective in supporting landlords in upgrading existing low-rent accommodation and could be expanded under certain circumstances to allow upgrade allowances (forgivable loans) to support same-site replacement housing. Another useful possibility would be to eliminate the GST on new capital investments in affordable housing.

Federal, provincial, and municipal governments and related agencies have extensive land holdings, in some cases that are poorly utilized but would provide good opportunities for rental housing development. There are examples of successful programs where land has been provided at nominal cost on long-term lease arrangements by governments or agencies to support development of rental housing. In these cases government retains long-term ownership but secures extensive commitments limiting the determination of initial rents and future rent rate increases and requiring that all construction, operating, financial, maintenance, and other risks be accepted by the private industry partner with no recourse by lenders or others to the underlying land. Such arrangements protect the government's interests, ensure return of the lands with the improvements in acceptable condition on lease expiry, and most importantly, when properly structured can have a significant impact on establishing and maintaining affordable rent rates.

Through a more engaged dialogue between government-related entities and committed industry and institutional partners, other solutions can be developed, but industry will need to be confident that the government agencies are truly committed to act on good suggestions. Spanning several decades there has been an incredible and steady discussion of approaches that could contribute to creation of more rental housing in Canada, but the incidence of implementation and acceptance of these ideas has been far too slow. Consequently, many good opportunities have been lost or are mired in politics or suppressed by inaction by those that could make a difference.

As suggested above, the opportunity to develop rental housing is constrained by a number of factors, one of the most significant being the constrained availability and high cost of suitable development lands. In Vancouver

In Vancouver and Toronto, like most Canadian cities, whole neighbourhoods are characterized by rows of aging two-, three-, and four-storey "walk-up" wood frame rental apartments that have been held for decades by families reluctant to sell due to the substantial capital gains taxes that would be triggered on redevelopment or sale.

and Toronto, like most Canadian cities, whole neighbourhoods are characterized by rows of aging two-, three-, and four-storey "walk-up" wood frame rental apartments that have been held for decades by families reluctant to sell due to the substantial capital gains taxes that would be triggered on redevelopment or sale. Alleviation of this tax in exchange for a binding commitment to rebuild (likely at higher density) and maintain as an assured rental property (guaranteed to remain rental in perpetuity or a defined period—let's say 80 years) would release substantial sites well suited to affordable rental housing development. For many of the current owners of these sites this redevelopment, possibly through a land lease to a development partner, would be very attractive for estate planning purposes.

Today there is strong interest from Canadian institutional investors and pension plans to invest in multi-residential developments. These are very suitable partners to work with private property owners and developers that share an interest in long-term investments and have a common desire to contribute to the supply of good-quality assured and affordable rental residential properties. Working with some of the tools available or that could be provided, combined with the current low interest rate environment, enhances the opportunity to conceive multi-residential developments that will generate modest and stable returns—which would be attractive to these institutional investors and are a good match to offset pension liabilities.

There are several good examples of success in creating affordable rental residential properties. For example, our company, Concert Properties, working in partnership with OMERS (through Oxford Properties) and Sun Life, has completed 2,281 suites of assured rental housing in a $600 million program in the Greater Toronto Area. In Vancouver, Concert created and continues to operate 1,149 suites of guaranteed rental housing through an innovative land lease program arrangement with the City of Vancouver that provides an excellent example of what can be achieved through cooperative public-private arrangements. Most recently, through a cooperative land lease arrangement at UBC with St. Andrew's College, Concert has developed Axis—a 174-suite rental tower offering good-quality assured rental accommodation.

So what should the community expect where incentives and support are provided to private partners by government or public agencies? In my opinion, where the types of incentives suggested above are offered, the rental housing provided must be guaranteed to remain rental in perpetuity or for a significantly long term. (Concert's housing developed on municipal land is guaranteed to be available for the entire term of the 80-year ground leases). In addition, private developers and investors (preferably pension plans or similar institutional investors) must agree to terms to establish affordable rents, limitations on rental increases, and various terms that limit (but preferably eliminate) public sector construction, finance, operating, maintenance, and other risks. In turn, the private sector partners should expect that substantial progress will be made in reducing development approval times and added costs that limit the ability to create affordable housing in an expedient manner.

In conclusion, we are indeed experiencing a rental housing renaissance. Now the challenge is to build upon heightened multi-residential rental property development interest to drive enhanced affordability.

Photo 1 by Concert Properties (flickr). Photos 2–4 by concertproperties.com.

ASK A LAWYER

John McLachlan, LLB

Q:

Increasing property prices have prompted some new tax programs in BC and especially in Vancouver. Can we expect these new taxes to make housing more affordable?

A:

Skyrocketing prices!

Lack of affordable housing!

Low rental inventory!

These statements and many more like them are seen virtually every day in the media in reaction to fast-rising property prices in Metro Vancouver and certain other key markets in British Columbia. Understandably, residents are increasingly anxious about being able to afford to buy a home, or equally, to find a suitable place to rent at an affordable price.

Current popular perception is that much of the increase in property prices, and the corresponding lack of affordable housing, is tied to foreign investment in residential housing. In response to this perception, both the provincial and Vancouver municipal governments have introduced new taxes to discourage foreign investment in residential property in the Metro Vancouver region.

On July 25, 2016, the provincial government announced that it would impose an additional property transfer tax of 15% on foreign nationals (without Canadian permanent resident status) when buying residential real estate in Metro Vancouver. The new tax was implemented starting August 2, 2016.

This new tax follows on the heels of the City of Vancouver's plan to impose additional property taxes on vacant homes in the City of Vancouver.

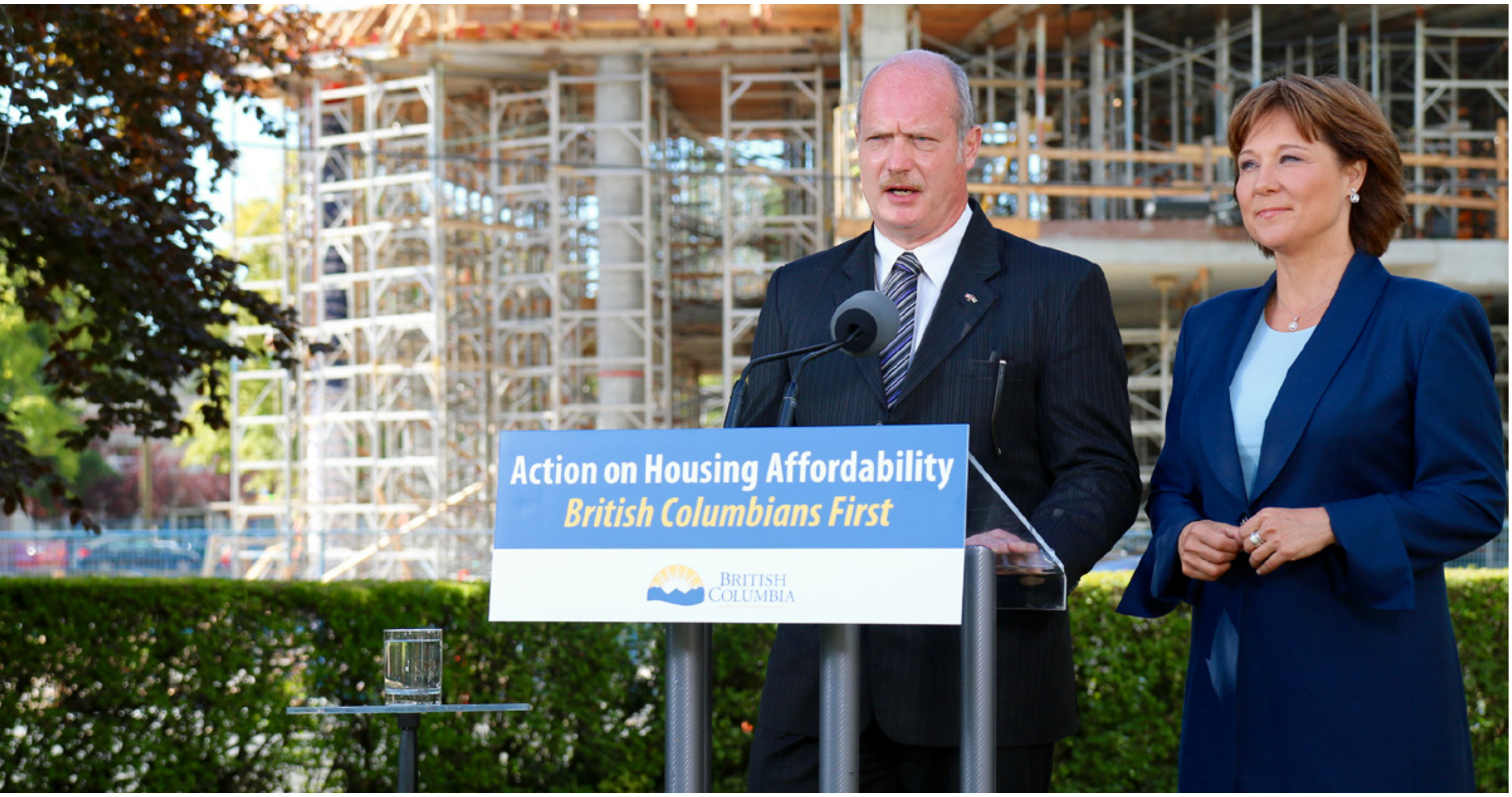
The stated intention of these taxes is to temper or even reverse the current price of housing in Metro Vancouver and to encourage an increase in the supply of long-term rental housing. The governments assert that the taxes reflect market data and analysis.

A second look, however, suggests that both of these taxes are geared more to politics than results, to optics than well-thought-out planning. In essence, the taxes do not address the underlying issues of housing affordability and rental vacancy in the region.

Vancouver is consistently ranked as one of the most desirable places to live in the world. As a result, there is high net immigration into the region, and demand for housing is correspondingly strong. The City of Vancouver is faced with the difficult task of increasing the supply of affordable housing with limited space in which to do so.

To increase supply, the City has to grapple with conflicting goals. Local residents strenuously resist rezoning that would lead to increased density and social housing in their neighbourhoods. Heritage values, neighbourhood character, and parkland need to be preserved.

Is foreign money driving up property prices? Foreign purchases of residential property currently account for less than 10% of the residential transactions in Metro Vancouver. It's not sufficiently clear that this is a driving factor in rising prices.



Further, the foreign investment is likely concentrated on the higher end of the residential market—the transactions that attract and merit international interest. Most first-time homeowners, understandably, buy at the lower end of the market. These two sets of transactions are not directly related.

Is there currently a penalty for foreigners who hold property in Vancouver but leave it vacant? Aside from property taxes, financing expenses, and other costs of maintaining the property, foreign investors, as well as others who own residential real estate and do not live in it as their primary residence, will, generally speaking, pay income tax on a portion of the gain in the value of the property once the land is sold. For non-resident vendors of residential property, special federal tax provisions apply to ensure the tax is collected at the time of sale.

The 15% provincial tax was announced without warning and with virtually no lead-time prior to implementation. This sudden change to the tax will apply to existing deals and has the potential for dramatic and unintended impacts in both the short and long term. The government has refused to exempt transactions that have already been negotiated and are signed and binding but not due to close before the implementation date of August 2. This includes condominium pre-sales contracts, which often have lengthy lead times to closing while the development is built.

As foreign buyers learn of this change to law, and the dramatic increase in the cash required to close, it is expected that many may back out of deals. That will have a potential domino effect, leaving the local homeowner holding only the deposit on the closing date. Those local homeowners may have a binding contract to buy a new home—a contract that most will now be unable to fulfill. They would be entitled to sue the foreign national for their damages, but it is notoriously hard to chase money overseas. To make matters worse, these homeowners, if they default on their contract to buy their new home, may well face a lawsuit from the vendor of that property, a lawsuit that has considerably more potential for success. In short, these sellers could be in quite dire circumstances, forced to make a quick second sale of their existing home to lessen their legal exposure to the owner of what they had hoped would be their new home.

Further, the 15% tax may have other unintended effects. Imagine, for example, foreign workers who are working, living, and paying taxes in Metro Vancouver but who do not yet have permanent residency or Canadian citizenship. Imagine that such individuals had, in an effort to invest in their future in Vancouver, already signed contracts to buy homes with closing dates after August 2. Though not the intended target of the new tax, these foreign workers will be caught by the provisions and required to pay 15% additional tax. Naturally, this could impact their abilities to close; if they do not close, they

Foreign investment is not the sole, or perhaps even a significant, driver of rising prices and lack of affordable housing. Without adequate supply tempered with sound financial lending practices, it is unlikely that there will be a significant increase in affordable housing in the region.

become open to potential lawsuits from the vendors of the homes.

For the long term, there is no telling how great the impact of this tax will be on residential property values in Metro Vancouver. The potential outcomes include an increase in foreign investment in residential property outside of Metro Vancouver, potentially leading to rapid increases in those markets. It may simply encourage foreign buyers to leave the BC residential market and invest elsewhere. It may also increase foreign investment in commercial real estate and lessen the focus on the residential market. Many local buyers may adopt a wait-and-see approach to the market to find out how the tax will affect prices. Some of these impacts may take some of the heat out of the high end of the residential market in Vancouver, however, there are a lot of unknowns associated with this potential result. Also, cooling the high end of the market does little to increase affordability for those not yet in the market.

Foreign investment is not the sole, or perhaps even a significant, driver of rising prices and lack of affordable housing. Without adequate supply tempered with sound financial lending practices, it is unlikely that there will be a significant increase in affordable housing in the region.

A few thoughts for approaches that may have a more direct impact on affordability and supply of housing stock to own and rent:

- The City needs to dramatically reduce the time it currently takes to approve development permits (some estimates put this time between 12 and 18 months); the hefty costs associated with holding the land and with the uncertainty of the process drive up developers' costs—and all such costs are invariably passed on to the buyer.
- For the same reason of reducing the end cost to condo buyers, the City may need to look at reducing development cost charges and community amenity contribution fees. More creative and streamlined ways could be developed to bring about the same benefits to the community.
- All cost reductions should be contingent on ensuring developers pass 100% of these cost savings on to buyers.
- Residents will need to get on board and give up some of their NIMBYism. If we really support this goal of increasing housing supply, we need to accept and adjust to living with less space and more people.
- The City needs to support the process of neighbourhood densification by enhancing infrastructure in neighbourhoods. This should include but not be limited to increasing transit. Other measures should include assisting with parking and determining how to ease the traffic congestion that may build on formerly quiet streets.
- All three levels of government need to cooperate on funding to increase the stock of housing for renters and first-time homebuyers, including working people who either cannot find the supply or cannot afford the cost.

Property values are influenced by many factors—interest rates, supply and demand, and development costs, to name just a few. At the end of the day, introducing new taxes to curb foreign investment may not have any fundamental impact on housing prices and their affordability.

Photo by Province of BC (flickr).

RI

2016-2017 BOARD OF GOVERNORS

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NEW GOVERNORS

RUSSELL COOPER, RI

KEITH MACLEAN-TALBOT, RI

Russell Cooper is an experienced appraiser at BC Assessment, having worked in the Abbotsford office for 10 years on residential, strata, development land, and now commercial properties. He loves working for BC Assessment for many reasons, but primarily because the people are amazing and the flexible work options are great. Born in Kitchener, Ontario, he moved with his family to the Fraser Valley in 1989. He is a proud husband to his wife, Andrea, and father to nine-month-old Harvey.

Russell is interested in being a governor because of his involvement in the Fraser Valley Chapter, of which he has been a member since 2013. At his first meeting as a chapter director, he was elected as the new chair. Serving in this way has been a terrific experience for Russell, and he has particularly enjoyed getting to know the people who contribute so much to the Institute. Russell looks forward to being involved at a higher level as a governor and is grateful for this opportunity.

Keith MacLean-Talbot is a recognized leader with BC Assessment and has chaired the Vancouver Chapter since 2014. As chair, Keith has helped lead numerous successful REIBC events and is eager for this next step to the board to help guide the Institute's strategic direction. Relying on his experiences as a leader, appraiser, and training and development consultant, Keith is looking to strengthen the RI brand and its position within the real estate community.

After graduating from Bishop's University with a bachelor's degree in business administration, Keith followed a passion for surfing and the tourism industry to Vancouver Island, where he lived, worked, and played in Tofino. Now living in North Vancouver, he spends his spare time mountain biking, skiing, golfing, and hiking. Keith is thankful for all the networking opportunities that REIBC provides and is excited to be a voice for RI members throughout the province.

AFFORDABILITY CHALLENGES IN MANUFACTURED HOME COMMUNITIES

Michael Drouillard

Manufactured home communities offer an important supply of affordable housing in BC. There are close to a thousand such communities across the province, consisting of tens of thousands of manufactured home sites. Manufactured home communities, or MHCs, are particularly important for seniors with limited income, and a significant number of MHCs are geared specifically towards seniors and impose age restrictions on their residents. For a very low cost relative to other forms of housing, a manufactured home in an MHC is a real home, with a backyard, and can be customized to the homeowner's needs.

Manufactured home ownership involves a unique blend of the ownership of property coupled with a lease of real property. The MHC resident ordinarily leases the home site, from an MHC landowner pursuant to a tenancy agreement, and has no ownership interest in the underlying land. Usually, the tenancy is month to month, though the resident enjoys a considerable degree of security nonetheless because the tenancy can only be terminated for cause. Tenancy agreements are governed by the Manufactured Home Park Tenancy Act (MHPTA), regulating the relationship between resident (tenant) and landowner.

The resident owns the manufactured home that he or she relocates onto the site. Ownership of manufactured homes is regulated by a number of different pieces of legislation, the primary one being the Manufactured Home Act, which is unique to BC and was enacted primarily to create a central registry for recording the ownership of manufactured homes.

Despite the legislation, two affordability challenges are currently affecting MHC residents: lease rate increases and resident evictions when properties are redeveloped for other uses.

Despite the legislation, two affordability challenges are currently affecting MHC residents: lease rate increases and resident evictions when properties are redeveloped for other uses.

RENT INCREASES

An MHC landowner may want to increase rents. This can occur when the landowner seeks to pass on the cost of major capital improvements to MHC residents or when the landowner seeks to increase rents that are significantly below those of similar MHCs in the same geographic area.

The MHPTA imposes rent controls on landlords. In the usual case, a landlord can only raise a tenant's rent once per year pursuant to a formula based on the rate of inflation. In 2016, for example, the maximum allowable rent increase is 2.9%. However, the MHPTA allows for exceptions to the ordinary rule.

In addition to several other exceptions, an MHC landowner may increase the rent beyond the statutory maximum where the landowner has completed significant repairs or renovations to the MHC that are: 1) reasonable and necessary and will not recur within a time period that is reasonable for the repair or renovation; and 2) when the rent paid for a given manufactured home site is significantly lower than the rent payable for other manufactured home sites that are similar to and in the same geographic area as the manufactured home site. In either case, the proposed rent increase must be approved by an arbitrator through a quasi-judicial process. A hearing is convened in which the arbitrator receives the landlord's evidence supporting the proposed rent increase, and the tenant respondents are entitled to question the landlord's witnesses and provide their own submissions on the issue. The arbitrator ultimately renders a decision to approve or dismiss the proposed rent increase based on the evidence received at the hearing.

In the first instance, the requirement for a hearing to approve a rent increase due to significant repairs or renovations attempts to balance the competing interests of landlords and tenants. The balance is not perfect. On one hand, the requirement of a hearing protects tenants from being subjected to rent increases for capital improvements that are not reasonable or necessary for the MHC. On the other hand, the requirement for a landlord to prove the necessity of a capital expenditure through a formal hearing in which the arbitrator's decision to approve the additional rent increase is uncertain, and where the costs associated with commencing the hearing are not recoverable, likely acts to dissuade some landlords from carrying out necessary repairs and renovations which could be of great benefit to the MHC and its residents. Legislative reform allowing for a landlord to

obtain approval for an additional rent increase in advance of carrying out the major repair or renovation could address this problem.

In the second instance, it is worth noting that applications to increase rent on the basis that the rent for a manufactured home site is significantly lower than the rent payable for other sites rarely succeed. The legal test is not that the manufactured home site be rented for below market value—since market value is defined by generally accepted appraisal standards—but rather that the site be rented for an amount that is significantly below what is being paid for similar manufactured home sites in the same geographic area. This means, therefore, that if there are no similar manufactured home sites in the same geographic area, or if all such sites are currently rented for below what the market could bear (due to, for example, a rapidly changing real estate market), the application for a rent increase will likely fail and the MHC landowner will be forced to continue the rental at a below-market rate. This result can be seen as a decision of the legislature to shield MHC tenants from the effects of a fluctuating real estate market, but at the expense of the MHC landowner.

REDEVELOPMENT AND EVICTION

When an MHC landowner decides to redevelop an MHC to another use, the residents must vacate.

Manufactured homes range considerably in quality. At the lower end, a manufactured home can resemble a portable classroom used at a public school and will lack any kind of significant foundation. At the highest end, a manufactured home will rest on a concrete slab and have a high-quality, highly customized exterior resembling a detached single-family home.

Whether of low or high quality, manufactured homes are challenging to move after having been located to a manufactured home site. Aside from the financial cost of relocating a manufactured home to and from a new site, and the physical difficulty of moving a fragile or older manufactured home, there are few vacant manufactured home sites near major urban centres in BC. As a result, a manufactured home situated on a manufactured home site in an MHC tends to sell at a premium compared to one that is not situated on a site.

The difficulties in relocating a manufactured home are compounded when all of the residents of an MHC are required to move at once. Under the MHPTA, the landowner has the right to end a tenancy for cause if all the necessary permits and approvals required by law are in place and the intention, in good faith, is to convert all or a significant part of the MHC to a non-residential use or a residential use other an MHC. When an MHC landowner gives notice to a resident for this reason, the MHPTA requires compensation be paid to the resident in the form of 12 months' rent. This sum has been criticized by tenant advocates as being inadequate compensation to a resident whose home may have to be demolished due to the inability to relocate it either because of the age and fragility of the home or because of a lack of alternate sites. Some municipalities have created bylaws imposing further obligations upon MHC landowners wishing to redevelop or rezone their MHCs. These obligations range from requiring the landowner to develop a relocation plan for residents, which is intended to help residents find new housing and thereby minimize any hardship caused by the relocation, to the controversial requirement of requiring the landowner to pay a sum to each resident far in excess of 12 months' rent.

I seriously question the legal authority of a municipality to require, through a bylaw, a private landowner to pay money to other individuals as a condition of rezoning or redevelopment. It is one thing to require, as a condition of rezoning, the payment of community amenity contributions intended to benefit the residents of a municipality generally, but it is entirely another for a municipality to require, as a matter of law, the payment of cash from one private individual to another as a prerequisite to a change in land use.

The answer to the concern raised by tenant advocates may instead lie in education and in more MHCs being developed. Prospective residents of MHCs should be provided with better education about their rights and responsibilities before deciding to purchase a manufactured home located in an MHC. Ultimately, they are tenants of the MHC, and all tenancies of land come to an end eventually. Any resident who decides to pay a premium for a manufactured home located on a manufactured home site in which the tenancy is only from month to month ought to proceed with caution. Furthermore, a robust attitude on the part of municipalities to the development of more MHCs could address the lack of suitable alternative manufactured home sites.

In conclusion, manufactured home ownership is not free of affordability challenges, but relative to other forms of home ownership, these challenges are likely manageable. I am therefore optimistic that this form of home ownership will grow in popularity as the need to provide housing to an aging population increases.

Photo 1 by joshuaraineyphotography (iStock). Photo 2 by Warren Price (iStock).

ON THE JOB

>> TIM DOWN, RI, AACI, P. App, CAE

LICENSED SALES REPRESENTATIVE; PRESIDENT
MACDONALD REALTY KELOWNA; PACWEST COMMERCIAL REAL ESTATE ADVISORS

WHAT DO YOU DO IN YOUR PROFESSIONAL POSITION?

At Macdonald Realty Kelowna I focus on commercial, industrial, investment, and development lands throughout the Okanagan Valley. I also specialize in the listing and sale of lakeshore, estate, and acreage residences for high-net-worth clientele.

My consulting firm, PacWest Commercial Real Estate Advisors, focuses on the annual review and appeal of property assessment notices, property transfer tax appeals, and capital gains appeals. I provide assistance to property owners applying for and maintaining farm classification or applying for ALR land exclusion and subdivision.

HOW DO YOU SPEND YOUR DAY?

I start my mornings with a scan of local, regional, and national news followed by a review of the latest listings and sales in the Okanagan. I'll then contact clients to share new listings, and I'll set up viewings, attend property showings, prepare marketing materials, prepare and present offers, meet with clients to discuss new property listings, inspect and measure properties, collect property information from a variety of sources, or attend municipal and regional district offices to collect property-related information. During the late fall and winter, I spend the majority of my time on property assessment consulting services.

WHAT PREPARED YOU FOR THIS ROLE?

I attended Vancouver Community College's Realty Appraisal program, which was followed by a summer student position with Steve Cullis Appraisals in Terrace, where I received my first experience in fee appraisal. I eventually joined BC Assessment Authority, where I worked in the Northwest and Eastern Fraser Valley offices for 11 years. During this time I also completed the Real Property Assessment Program at UBC.

In 2001 I moved to Colliers International's Real Estate Tax Services office in Vancouver, and I successfully completed the real estate sales licensing program through UBC's Sauder School of Business. I oversaw the Western Canadian Property Tax Services Group for five years until recruited to join the PricewaterhouseCoopers Real Estate Advisory Group in 2006. In late 2006, I made the decision to start my own consulting firm and moved my real estate sales licence to a large national real estate sales office in Kelowna.

WHAT DO YOU FIND CHALLENGING ABOUT YOUR WORK?

The real estate market is dynamic, requiring constant monitoring of the daily changes in the marketplace while managing client expectations. Property assessment reviews and appeals require knowledge of appraisal, assessment legislation, appeal board decisions, and court decisions on top of being able to determine if the assessed value is equitable within the taxation jurisdiction.

WHAT DO YOU ENJOY ABOUT YOUR WORK?

I enjoy assisting clients in selling and purchasing real estate based on their unique requirements. It is very satisfying to investigate, analyze, and negotiate a real estate transaction. Undertaking property assessment reviews and appeals is similar in terms of analyzing the subject property's local market conditions while proactively engaging with BC Assessment Authority assessors to settle an appeal.

ARE THERE COMMON MISUNDERSTANDINGS ABOUT THE WORK YOU DO?

There is a negative connotation associated with the term *realtor* based on the behaviour and actions of some industry practitioners. Consumers should be more concerned with the competency of their licensed representative beyond what appears to be an order-taking mentality and should not feel obligated to use a family relation or friend.

WHAT GOALS ARE YOU WORKING TOWARD?

I am finishing my Broker Licensing Course through Sauder and then plan to start the CCIM designation program. Raising a family has been my number-one priority over the years.

PROPERTY TAX 101

Richard Stewart

Over the past couple of months, we've seen headlines suggesting that most Lower Mainland residents will be seeing massive increases in their property taxes because property values have increased. But while it might sell newspapers, it isn't true. A similar debate happens every year, and this year the debate has been particularly heated since property values in Metro Vancouver have risen so dramatically.

BC's property tax structure has to be one of the most misunderstood tax systems in the world. While property value has an effect on the taxes you pay, it doesn't follow that your property tax will increase when your property value increases—property taxes are not calculated that way.

CALCULATING PROPERTY TAX

Each year, every city undertakes its budget process to determine how much it will cost to provide the services (police, fire, parks, roads, etc.) that it is responsible for. Usually the budget is a few percentage points higher than the previous year's, accounting for such cost increases as inflation, increased regulation (from senior governments), and downloading of increased responsibilities (also from senior governments). Council actually wrestles quite hard about every line item, trying to keep our tax increase as low as possible while covering the needed services and investments. Taking all that into account, each city sets its budgeted spending. That's the expenditure side of the budget, and that's where nearly all the decisions are made.

On the revenue side, by comparison, there are few decisions to be made. In BC, similar to other Canadian provinces, cities are required to collect their needed taxes based on property value—also called assessment—as established by BC Assessment Authority, a provincial agency. Early in the new year, BC Assessment Authority provides the valuation of all properties in the province (though technically, the assessments are based on estimated fair market value as of the previous July 1).

Once BC Assessment Authority provides the assessments and the city sets its budgeted expenditures (which we in Coquitlam did back in December), the city's tax department can set the tax rate. The tax rate, or mill rate, when multiplied by the total value of all the property in that class across the city, will equal the total revenue needed to be collected from that given class of property—residential, commercial, industrial, etc.

A SIMPLIFIED EXAMPLE

Let's use an example, extremely simplified; we'll ignore commercial property taxes, user fees, development fees, and the like. Let's assume that last year's city's budget required $100 million from property taxes. Let's also assume that BC Assessment Authority calculated the city's 40,000 residential properties at between $200,000 and $2,000,000, with an average of $500,000, putting the citywide assessment at $20 billion in residential property value. The city's finance department did the the math ($100 million in costs divided by $20 billion in aggregate property value) and came up with a required tax rate of .005, or a mill rate of $5 per thousand dollars of assessed value. If your home's assessed value was $500,000, then your taxes were $2,500 ($500,000 x .005).

So that was last year. What will happen this year, when property values have risen substantially? Again, let's use our simplified example. We'll assume that the city's costs have not increased at all (its budget stays at $100 million). BC Assessment Authority reports that the average property value increased by, say, 25%, such that the new aggregate value is $25 billion. A windfall for the city? No, though some people think that the city automatically gets 25% more revenue. Instead, the finance department does the math again (budgeted costs divided by aggregate property value), and the new tax rate is .004, or $4 per thousand. If your property experienced the same increase in value as the average (up 25%), its new value of $625,000 would be multiplied by the new mill rate of .004, and you would pay $2,500—the same amount as last year, because the city's budget didn't increase and your assessment increased by the average.

But what if your property value increased by less than the average? In this scenario, an assessment increase that is less than average would actually result in your taxes going down. And if your property value increased by more than the average, your taxes (your "share" of the city's costs) would go up.

Of course, most municipalities are facing the challenge of rising costs, both conventional inflation and cost pressures from such issues as downloading, increased regulation, and climate change. But the principles are the same if your city institutes a 3% tax increase; if your property value increases by the same as the average, then you'll face the 3% budget increase. Most properties, though, will face assessment increases either higher or lower than the average, and a few will even see decreases.

COQUITLAM IN 2016

Let's look at the City of Coquitlam's 2016 budget as an example.

Budget

Coquitlam's budget will result in an average tax increase of 2.27%—the lowest in two decades. We've worked very hard to keep cost increases to a minimum, and to be as efficient as possible.

Assessments

Coquitlam's average assessment has increased by 15.4%. So, if a Coquitlam homeowner's assessment went up by the 15.4% average, that homeowner's taxes will go up at the same rate the city's budget did.

My own family's assessment rose by 19.5%, higher than this year's citywide average property assessment

increase, so my family's property taxes will rise by a higher rate than the city budget did. By comparison, a quick search shows that the house I grew up in here in Coquitlam rose in value from $629,000 to $662,000, an increase of only 5%—well below the average property value increase in Coquitlam—which means the current owners of that house will actually see their property taxes decrease by about 13% from 2015.

(You can search the assessed value of any property in BC online. Just go to evaluebc.bcassessment.ca and type in the address.)

If you don't agree with your assessment when you receive it (you feel BC Assessment Authority has made a mistake in how they valued your property), you can appeal it. Each year, you have until February 1 to submit an appeal.

Those are the principles behind property taxes. Of course, we make it more complicated by establishing a much higher tax rate on commercial properties and by exempting some properties (owned by charities, for example), among other things. As well, any new buildings added to the assessment roll—that is, any new development—tends to lower the tax rate since the city's costs are spread out over more properties, though of course there is a cost to providing services to more buildings and residents.

SUMMARY

The main principles are these:

1. Increases in property values don't result in an increase in revenue for the city
2. Property values don't tell cities how much tax they will bring in; they only determine how the needed tax revenue will be distributed among property owners
3. If a property value rises by more than average, taxes will rise by more than the budget
4. If #3 applies to you, there's a good chance you'll blame the mayor
5. Sometimes it pays to be below average

Photos 1-2 by Richard Stewart: views from Coquitlam Town Centre highrise. Photo 3 by Niall Williams (flickr): Coquitlam Fire and Rescue. Photo 4 by Kristy Davies (flickr): Mundy Park. Photo 5 by Niall Williams (flickr): Town Centre Park.

MEMBER PROFILE

ANDRÉ GRAVELLE, RI

DIRECTOR, DIPLOMA AND CERTIFICATE PROGRAMS
REAL ESTATE DIVISION, SAUDER SCHOOL OF BUSINESS, UBC

André's commitment to educational programs reflects a keen interest. Undertaking a master's degree in adult education, at a time when he was juggling career, education, and family, has provided André with in-depth perspective on how students must balance their own lives. He now works to make sure the real estate programs at Sauder reflect students' needs—students who are often professional adults. André also teaches, which he feels is a critical activity: "Teaching supports authenticity in developing programs. If you put yourself in front of an audience, you'd better know what their needs are."

André volunteers in order to actively contribute to areas important to him. He is a past president and board member of REIBC, sits on UBC's Development Permit Board, and coaches community soccer. Two teenage soccer-playing sons have André working hard on his fitness just to keep up with them.

Born and raised in Nanaimo, André has lived in Vancouver for over 30 years and so considers the West Coast to be his home, but his love for adventure travel takes him all over the world. About many of his family holidays, including recent trips to Costa Rica and Hawaii, André says, "I've dragged my family on endless hikes, through jungles, deserts, and volcano craters." A few years ago André took his family on a month-long adventure to the Middle East—coinciding with the beginning of the Arab Spring uprising. He recalls about that trip, "Not all of our friends agreed this was their idea of a perfect family holiday, but I considered it to be a fascinating learning experience and was fortunate to be able to meet and spend time with so many wonderful local peoples, experiencing their culture and way of life."

Noting that his sons will soon be out of the house and on to many other things, André says that travel is one major focuses as it allows his family to share unique experiences. "As this phase of our life begins to end we're determined to make the most of it before that opportunity slips away."

ORGANIZATIONAL PROFILE

CANADIAN PROPERTY TAX ASSOCIATION

Ryan Tung

The Canadian Property Tax Association (CPTA) was founded in 1967 and is “a national organization providing a forum for the exchange of ideas and information relating to both commercial and industrial property tax issues arising across Canada.” The CPTA consists of four chapters: British Columbia, Ontario, Quebec, and Western. As per its constitution, the aims and objectives of the CPTA are:

- to provide a forum and information exchange in the field of assessment and taxation of property
- to promote the equitable assessment of property tax purposes along sound and uniform lines
- to study existing and proposed legislation and make representations to governments
- to perform such other functions as are consonant with the foregoing purposes

Members of the CPTA include (but are not limited to) property tax consultants, lawyers, property tax officers within various public and private organizations, and assessors. The culture of the property tax industry varies between the geographic areas represented by the various chapters. Here in BC, we have relatively high participation from our assessing body, BC Assessment.

In my view, the CPTA meets its objectives by bringing together individuals and parties such that there is an open flow of information and knowledge relating to the property tax industry. Articles are published in a newsletter distributed to members, while an annual workshop (spanning three days) is held in different locations across Canada. Together these provide a national scope on the various issues that arise. Furthermore, within the respective chapters, seminars and functions are held both to foster networking and to educate and discuss relevant issues. For the BC Chapter we usually hold a networking function in December, a roundtable-style market forum in conjunction with BC Assessment in the fall, and a legal seminar at some point in the year. The legal seminar held in 2016 included presentations by panelists on such topics as the evolution of highest and best use, contamination, restricted use, exemptions, and First Nations property assessment.

In the BC Chapter we have also formed ad hoc committees to work on broader issues such as legislative or regulatory changes, interpretation of precedential case law, or processes at BC Assessment. As mentioned previously, in BC we have strong participation from BC Assessment, with their involvement being very valuable to the CPTA given it is an important stakeholder. The education, discussions, information sharing, and sometimes advocacy as fostered by the CPTA is very important in the property tax realm, as new issues are always arising.

VALUING DIVERSITY CONFERENCE

The Valuing Diversity conference was held May 5–7, 2016, in Parksville at the Tigh-Na-Mara Resort. Over 150 people attended this AIC-BC–REIBC partnership project, which after two events we can now call a series!

Sixteen sessions covered a range of topics including mentoring, risk analysis, property value, appraising unique properties, and high-voltage power lines. This conference is one that allows members of both organizations to attend sessions that range widely in their content, allowing all delegates to learn about other areas of the real estate profession they are less familiar with and therefore becoming more knowledgeable professionals. We thank all of those who presented at this event—they donated their time and we have made donations to Habitat for Humanity and Make-A-Wish on their behalves.

The keynote speakers were right on target. Kit Grant, a professional speaker from Calgary, opened the conference by challenging everyone to "Just go do it!" "Don't try," he said, "just do!" He had the delegates laughing and looking forward to the next day and a half of learning. Ryan Berlin, a demographer with Urban Futures, closed the conference with his presentation on the housing markets and where things are right now. Ryan noted that not much has changed in the last 25 years, which is an interesting statement considering what we are reading in the papers.

Entertainment on Friday night was a tribute to the retiring executive director of AIC–BC, Janice O'Brien. A lineup of speakers delivered terrific laughs and Janice received a standing ovation to recognize her 22 years of service.

Thank you to all who attended. Your feedback told us you thought it was a great event and that you look forward to attending more such events in the future. We will do our best to provide.

RI

Janice O'Brien with partner David enjoying an outdoor break at the Valuing Diversity conference.

THE BC PROPERTY TAX DEFERMENT PROGRAM

Michael Geller

Do you pay your property taxes? As house prices rise dramatically throughout BC, many homeowners are increasingly concerned about whether they will be able to afford to pay their property taxes next year. They need not be.

As most in the real estate industry are well aware, just because a property increases in value by 10%, there will not necessarily be a 10% increase in property taxes. This is because the annual tax increase for residential properties is determined by a mill rate, which is a function of the projected increase in municipal operating costs and the total assessed value of residential property in the jurisdiction.

DEFERRING TAXES

There is another reason why the taxpayer need not be overly concerned. It might be possible to defer paying taxes altogether. This is because the provincial government offers a program that allows many households to defer their taxes under certain circumstances. BC's Property Tax Deferment Program[1] has been in place for decades. Unfortunately, this program is not well known by those who might truly need to take advantage of it—yet well known by those, like me, who do not really need it.

I discovered this situation earlier this year, following the release of the 2016 property assessments—which revealed an average increase of approximately 11% across the province and 16.8% in Vancouver, with many single-family properties in the 15% to 30% range. At the time I tweeted out that if homeowners were concerned about paying their taxes, they should let Christy Clark pay them on their behalf. I added a link to the provincial tax deferment program. While I knew this was a bit cheeky, I thought it might attract some attention. And it did. What I did not expect was that over the next few days, I created a media storm that embarrassed my family but endeared me to many friends and colleagues who were not aware of the program and now wanted to sign up.

Let me share what happened.

Following my tweet, I had a call from a CBC radio reporter who wasn't familiar with the tax deferment program. During our conversation she asked if I took advantage of it. I told her I did. Seeing my latest tax account statement from the province on my desk, I noted I had deferred about $60,000 in taxes over the previous six years. I acknowledged that I didn't really need to do this since I could afford to pay my taxes, but given the low interest rate (2% below prime) and the fact that the regular deferment program was open to anyone age 55 and older, I thought it foolish not to. In my case, I invested the money and achieved a better return than the 0.85% interest rate being charged.

The next morning I was shocked to hear my interview on the CBC Early Edition hourly news, which began with:

> *A Vancouver planner and developer says the BC property tax deferral program is allowing wealthy homeowners to make even more money. Michael Geller also admits he's first in line to take advantage of the situation.*[2]

1 See: www2.gov.bc.ca/gov/content/taxes/property-taxes/annual-property-tax/pay/defer-taxes.

2 "Defer taxes, make money: The new way to profit on Vancouver real estate," CBC News, January 6, 2016, www.cbc.ca/news/canada/british-columbia/property-tax-deferral-michael-geller-1.3391775

While I certainly achieved my intention of raising awareness about the program, the story line that I didn't expect was the outrage that people like me, who are not necessarily low-income or without means, are using the program. I subsequently did interviews with Global TV and numerous radio stations and received considerable feedback. Most people did not seem to understand that municipalities do not lose out on the tax revenue—the province pays the taxes on the homeowner's behalf—and the province does get its money back when the property is sold, or at any time beforehand. A homeowner can make a payment or repay the loan at any time without penalty.

Many people were disgusted with me. It was as if I were taking food from the food bank. They chastised me for threatening the future of a much-needed program, even though I made it clear I was not advocating an end to the program. However, others agreed that it made sense to take advantage of the program. Indeed, it was foolish not to, especially when the interest rate was so low.

While I did not promote this, it would make even greater sense for property owners who have a mortgage to use the money to instead pay down their mortgage, which would most certainly be at a higher rate.

PROPERTY TAX DEFERRAL PROGRAMS

Property owners are required to pay property taxes in full by the due date indicated on the tax notice to avoid late payment penalties. Property owners who are unable to pay can still claim the homeowner grant (if they qualify) to reduce the amount of taxes owed. They may also be able to postpone paying their taxes through the regular tax deferment program, the families with children deferment program, or the farm extension program.

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As long as there is a property tax deferment balance, a restrictive lien will be registered against the owner's property. Once the lien is registered, the homeowner can only change the property title to add a spouse; the outstanding balance must be repaid before selling the property, changing property owners other than adding a spouse, or refinancing with some financial institutions. Other title changes may require repayment.

Most British Columbians, including many low-income seniors and families with children, are not aware of this program. As it becomes better known, it may be necessary for the province to reconsider the terms, especially for those higher-income residents 55 and older who are being charged an interest rate at prime less 2%.

At a time when housing payments are consuming an increasing percentage of household incomes, these tax deferment programs could be beneficial to many households. However, if you do start deferring your taxes in order to invest the money, you may not want to share this with the CBC!

BC Property Tax Deferment Program

REGULAR PROGRAM

The Regular Program offers a low interest loan to defer paying all or part of the property taxes on a principal residence if the property owner is 55 or older, a surviving spouse of any age, or a person with disabilities. There is no means testing.

To qualify for this program the recipient must:

- be a Canadian citizen or permanent resident
- be living in BC for at least one year
- be a registered owner of the property
- pay property taxes for the residence to a municipality or the province
- have and maintain a minimum 25% equity based on the property's assessed value
- have paid all previous years' property taxes, utility user fees, penalties and interest
- have current fire insurance for their home and all other improvements (otherwise they may be eligible based only on land value)

The property must be a principal residence and classified as residential (class 1) or residential and farm (class 1 and 9).

A property doesn't qualify for tax deferment if:

- it's a second residence like a cottage, summer home or rental home
- the owner pays the property taxes for the residence to a First Nation
- the property is leased from the registered owner
- the property title is entirely in the name of the executor/executrix, or the estate
- the property title is entirely in trust
- the property is registered solely in the name of a business
- it's a float home that doesn't have a property title registered with the Land Title Office
- it has a Caveat other than Public Guardian and Trustee
- it has a Certificate of Pending Litigation or an Injunction
- it has a judgment registered at the Land Title Office (judgments expire two years after registration or renewal unless it's non-expiring)

The current interest rate is 0.70% and this is in effect until September 30, 2016.

FAMILIES WITH CHILDREN PROGRAM

The Families with Children Program is a low interest loan program that allows most families with children to defer paying all or part of their property taxes on a principal residence if they are financially supporting a child.

To qualify for this program, the requirements are similar to the Regular Program, except that the equity in the home need only be a minimum of 15%. The applicant must be financially supporting:

- a child under the age of 18 living in the home full time or part time, or
- a child who doesn't live with the homeowner but receives financial support, or
- a child or stepchild of any age that is attending an educational institution (e.g., college or university), or
- a child or stepchild of any age who is designated as a person with disabilities under the Employment and Assistance for Persons with Disabilities Act, or
- a child or stepchild of any age that, in the opinion of a physician, has a severe mental or physical impairment

For this program, the current interest rate is 2.70%. This rate is in effect until September 30, 2016.

Details on how to apply for tax deferral can be found at www2.gov.bc.ca/gov/content/taxes/property-taxes/annual-property-tax/pay/defer-taxes/regular-program/apply.

NEW MEMBERS

PROFESSIONAL MEMBERS

Guy Akester

TransLink

Eric Freudenreich

Port of Metro Vancouver

Scott Liliedahl

BC Assessment

Jesse Arenson

Fraser Valley Appraisals

Kerry Gobbi

BC Assessment

Jennifer Lloyd

The Province of Manitoba

Chadwick Choy

BC Hydro

Tara Hamer-Hayley

Vancouver Board of Education

Mike Meakin

Turner Meakin Management Company

Michael Drouillard

Harper Grey LLP

Mariana Janusic

BC Assessment

Dan Milburn

District of North Vancouver

Sebastian Espinosa

Lee & Associates

Valeria Lifanova

BC Assessment

Rebecca Olson

BC Assessment

Ryan
Peterson

BC Assessment

Not pictured:

Adam
Durette

BC Assessment

Sheila
Sontz

Dexter Associates Realty

Les
Tabata

Thompson Rivers University

Laura
West

KW Black Diamond Realty
(formerly Student)

Jimmy
Yip

BC Assessment

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Whether you have years of career experience or are new to the industry, REIBC is your key to career advancement and to connecting with the real estate industry.

>> Professional members have achieved the RI designation, which provides employers and clients with instant confirmation of advanced levels of education and experience.

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>> Associate members come from all sectors of the business world to connect with the real estate industry and to keep on top of the latest industry developments.

>> Student members connect with future employers and highly qualified industry professionals.

DIRECTORY

ASSOCIATIONS

BC Construction Safety Alliance
The BCCSA is a not-for-profit association that provides training, resources and consulting services to over 40,000 construction companies employing over 190,000 workers. We are funded by construction, select aggregate and ready-mixed industries.
bccsa.ca
info@bccsa.ca
1-604-636-3675

Fraser Valley Real Estate Board (FVREB)
We offer a range of services, leadership and training to 2,900 REALTORS® in North Delta, Surrey, White Rock, Langley, Abbotsford and Mission, allowing them to provide the highest level of professional service to their clients.
fvreb.bc.ca
mls@fvreb.bc.ca
1-604-930-7600

Home Inspectors Association BC
The Home Inspectors Association is a not-for-profit association of home and property inspectors with over 300 members. HIA is the largest and most respected organization of home inspectors in BC.
hiabc.ca
executivedirector@hiabc.ca
1-800-610-5665

Institute of Real Estate Management British Columbia Chapter No. 50
IREM links local members to counterparts around the world. Our mission is to educate members, certify their proficiency and professionalism, advocate on issues that affect the industry and enhance members' competence.
irembc.ca
admin@irembc.ca, 1-604-638-3457

LandlordBC
LandlordBC is BC's top resource for the owners and managers of rental housing. We are the largest landlord professional industry association in BC. Our mission is to provide rental housing providers with the support and resources needed to make doing business easy and successful. Contact Kimberly Lachuk.
landlordbc.ca
kimberlyL@landlordbc.ca, 1-855-707-2366

PAMA - Professional Association of Managing Agents
PAMA is focused on the creation and delivery of continuing education for professional residential property managers, including the mandatory relicensing courses for rental and strata managers. Education is provided in a variety of formats throughout the year at seminars, workshops and member luncheons.
pama.ca
admin@pama.ca, 1-604-267-0476

Real Estate Board of Greater Vancouver
The REBGV is a not-for-profit professional association that represents more than 12,000 REALTORS®. It provides a range of services, including the MLS®, education and training, business practices and arbitrations, advocacy, research and statistics and technology solutions.
realtylink.org
rebgv.org, 1-604-730-3000

Real Estate Council of British Columbia
The Council is a regulatory agency established by the provincial government in 1958. Its mandate is to protect the public interest by enforcing the licensing and licensee conduct requirements of the *Real Estate Services Act*.
recbc.ca
info@recbc.ca
1-604-683-9664

RICS
The Royal Institution of Chartered Surveyors is the world's leading professional body for qualifications and standards in land, property and construction.
rics.org
erubio@rics.org
1-646-771-5726

The Society of Notaries Public of BC
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