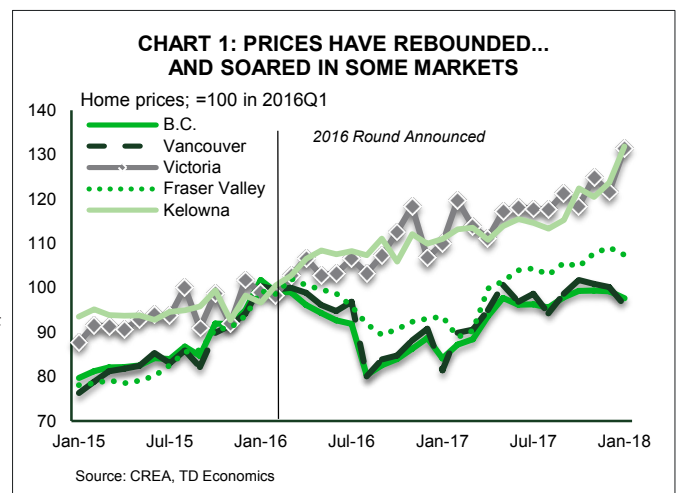


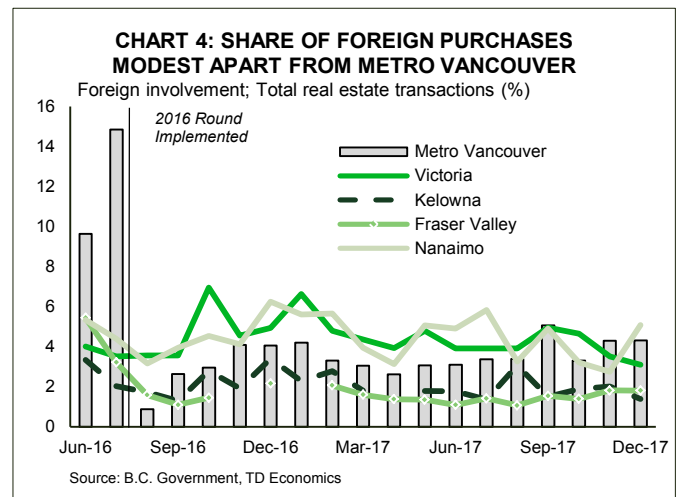
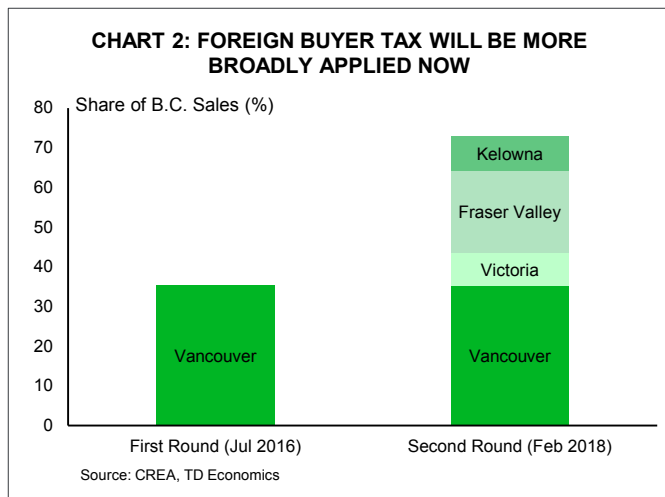
# Homes for B.C. Plan Will Weigh on Housing Activity, But Impact More Moderate Than 2016 Round

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- The recently tabled B.C. 2018-19 Budget Plan contained a slew of revenue and expenditure side measures, as well as a additional provincial housing regulation, following up on the measures introduced two years ago. For a general budget overview, please see our [post-budget analysis](#).
- The *Homes for B.C.* plan marks the second round of provincial regulation and consists of thirty measures grouped into five distinct buckets. Each of these buckets contains policies designed to:
  - Stabilizing the market. Includes policies for: taxing speculators; increasing foreign buyers tax by 5 percentage points to 20%; broadening the area subject to foreign buyers tax outside of Metro Vancouver; increasing taxes (school property tax rate and transfer) on properties over \$3 million; implementing an "Airbnb" tax.
  - Eliminating fraud and loopholes. Includes measures for: expanding collection and sharing of information across levels of government; strengthening auditing procedures to prevent tax evasion related to pre-sale reassignment, hidden ownership, and the misuse of the Agricultural Land Reserve (ALR).
  - Aligning supply and demand. Comprises of additional funding for homebuilding for various groups, including students, women and children affected by violence, the Indigenous, and people struggling with homelessness.
  - Strengthening security for renters. Includes expanded benefits for seniors and working parents.
  - Preserving affordable housing. Includes policies designed to boost investment in affordable homes and infrastructure.
- Measures included in the first two buckets are directed at taking some steam out of the existing home market whereas the last three buckets are targeted at improving affordability, particularly in the rental market.
- The current round of measures appears to be motivated by the continued erosion of housing activity in the province. Average prices have already fully recouped all the losses in Vancouver and B.C. Moreover, prices in markets outside of Metro Vancouver, where the foreign-buyers tax was not instituted in 2016, have surged in the last two years: Victoria (31%), Kelowna (32%), and Chilliwack (38%), with Fraser Valley (+7%) also heating up (see Chart 1).
- From this standpoint, the geographic broadening of the foreign buyers tax from just Metro Vancouver to Victoria, Nanaimo, Fraser Valley, and Kelowna should help to cool off those regions previously not covered, impacting both sales and prices across this broader area. The new rules expand the foreign buyer's tax to about three-quarters of the B.C. market - double the share covered by the 2016 regulation (see Chart 2).
- However, the impact on housing activity will be more muted this time around, with the housing market not ex-



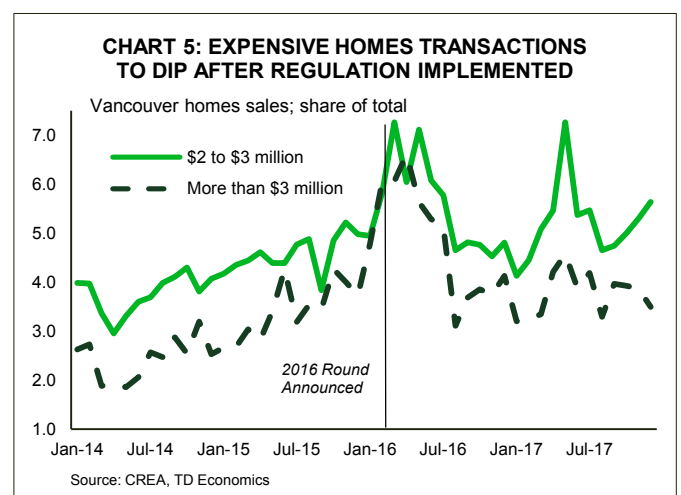
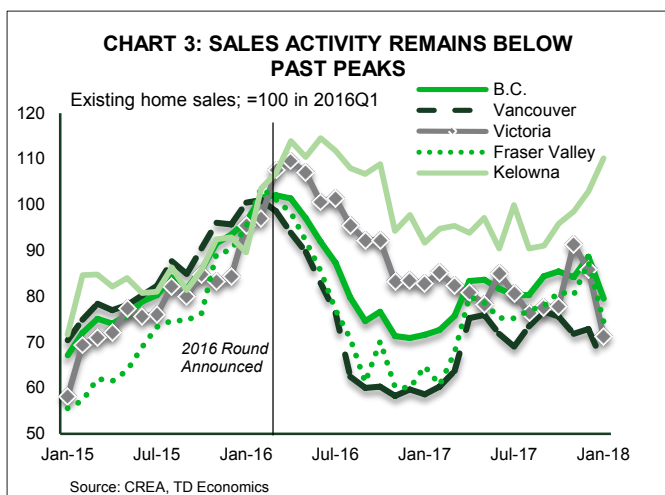


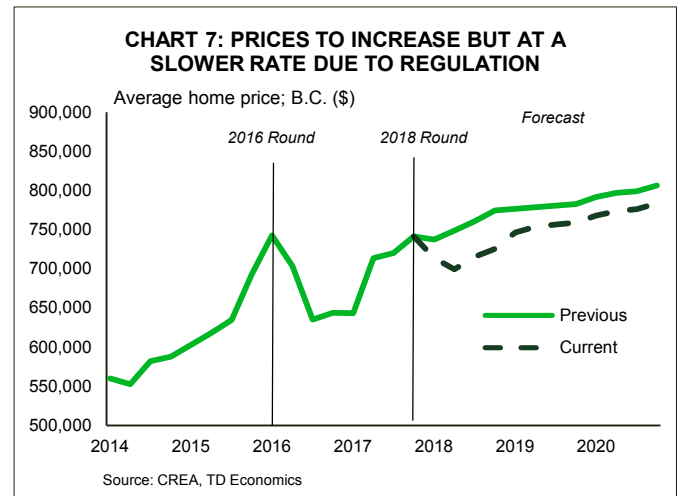
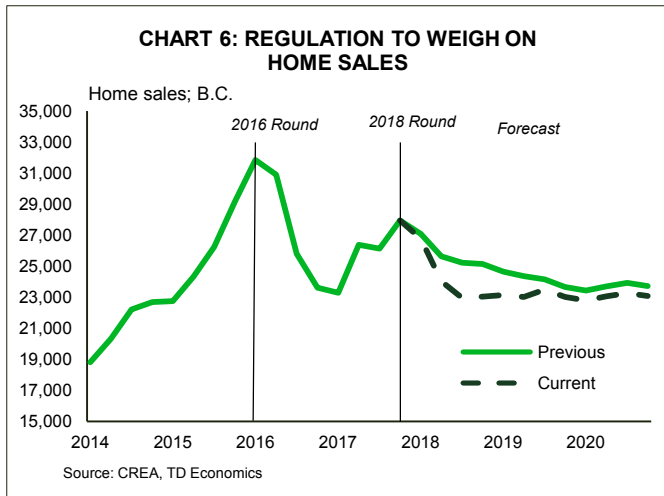
hibiting the same degree of excesses as two years ago. In fact, after falling 30% in B.C. and 40% in the Lower Mainland (see Chart 3) within six months of the 2016 round of regulations, home sales regained about half of the declines and are now around the level suggested by fundamentals: about 27 sales per 1,000 people aged 15 and over.

properties as well as satellite families, and will start at rate of 0.5% before rising to 2% by 2019.

- Moreover, the impact of the broadening of the foreign buyers' tax will be more muted than the previous round which imposed it on Metro Vancouver, due to the relatively modest foreign presence of the four additional regions (see Chart 4).
- The cool-off in activity will be accentuated by the planned implementation of a tax on speculative activity. Starting this fall, the aforementioned jurisdictions will levy a tax on real estate owners who do not pay B.C. income tax. This tax will also apply on vacant

- The province is also raising the rate on property transfers from 3% to 5%, as well as the school property tax rate on expensive properties. The new 5% rate will apply on the amount above and beyond the \$3 million mark, on sales across the entire province. Homes valued at more than \$3 million account for about 4% of all Metro Vancouver transactions (see Chart 5), down from the 6.5% peak prior to the implementation of the 2016 rules, with the share lower province-wide. The new rules will likely decrease transactions in this price range in the coming quarters, and the compositional change will weigh on average prices in B.C. during this time.
- Implementing an 'AirBnB' tax is likely to weigh on revenues of short-term rental units and could pose





some downside to the segment should selling pressures materialize, particularly amidst raising interest rates.

- Many of the remaining policies are very worthy initiatives, including efforts to eradicate tax evasion, prevent money laundering, close loopholes, and invest in affordable housing and transport infrastructure. However, their impact on the housing market is likely to be minimal in the short-run.
- All in all, we expect the *Homes for B.C.* plan to provide long-term benefits for the housing market and the economy given the proposed investment in infrastructure, alleviation of affordability pressures, and prevention of the build-up of excessive risks in the housing market.
- In the shorter run, the plan should contribute to a slackening in resale market conditions. Over the coming months, we anticipate a peak-to-trough decline in B.C. resale activity of about 5% to 10% (see Chart 6). Downward pressure on average prices should occur through both softer demand as well as a compositional shift away from the higher-end part of the market, where the tax changes are largely targeted. This is expected to push prices down by around 5% from peak-to-trough (see Chart 7).
- Putting it into context of the 2016 round of regulations, the impact of the current round on sales and

prices will be around one-third. This is due to the fact that current market conditions are far more balanced, expansion housing markets are exhibiting only modest foreign activity, and the marginal increase in the tax is smaller. These factors are somewhat offset by the additional tightening measures implemented in this round.

- On an annual average basis, the impacts will be more muted. We have downgraded our 2018 forecast for B.C. sales and prices to -5.8% (prev. -0.6%) and 3.1% (prev. 7.2%) respectively. On the other hand, some of the activity lost from B.C. may materialize elsewhere in the country, as investors seek real estate assets. Toronto and Montreal are the most likely beneficiaries of such moves, with activity and prices expected to be modestly higher – particularly in the GTA.
- However, we would caution that the timing of the measures leave considerable uncertainty around the likely impacts. These far-reaching reforms are being implemented at a time of rising interest rates (though gradual) as well as the recently implemented update to B-20 rules by the federal regulator OSFI, which are both weighing market activity.

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