Taxing Growth:

Analysing the Taxes and Fees on New Housing Development

Introduction

Across British Columbia (B.C.), developers of new housing navigate taxes, fees, and the policies that drive them, generated by all levels of government. These taxes and fees are levied to fund services and amenities that support complete communities. However, these same taxes and fees make it more costly to build the housing that communities need, and can ultimately restrict the amount of new housing that is built. We are already failing to build enough new housing in B.C. and homes remain unaffordable for many British Columbians. In a June 2022 report, CMHC calculated that 570,000 new homes would need to be built in the province to restore affordability.[1]

There are high barriers to new development and one of these obstacles is the layers of government taxes and fees charged on housing. This is an impact seen across jurisdictions and housing types, from a new condo development in Kelowna to a purpose-built rental building in Vancouver.

In this report, UDI examines the taxes and fees associated with building new housing in British Columbia. UDI has engaged experienced multi-family developers and tax experts to analyse three hypothetical condo project budgets from Vancouver, Kelowna and Saanich, and a purpose-built rental project from Vancouver. The tables for each of these examples are included in the appendix. Each analysis uses current cost estimates that would be calculated by builders in their budgeting process.

Summary Analysis

The analysis in this report of four mid-rise housing projects in B.C. shows that the layering of taxes and fees can create cost barriers and added risk for builders. For a new condo unit in Vancouver, the value of the taxes and fees paid by the builder as part of the development process can total over $250,000, not including taxes the buyer pays at the time of purchase. These costs form part of the purchase price paid by the buyer, along with the additional taxes paid at time of sale. In total, these taxes equate to **29%** of the potential purchase price in our example. The developer must determine whether the market can bear this cost burden when considering whether to undertake the project.

It has been argued that rising costs do not directly impact housing costs because they assume increasing fees and taxes come out of the price of the land and unit prices and rents are driven by the market, as are land values. However, it is not guaranteed that a land vendor will be willing to reduce their selling price to reflect rising costs. They can and have taken their sites off the market, which reduces the amount of land available for development and fewer homes available to rent or buy. In a Province with severe land constraints and increasing demand due to immigration and other factors, this leads to and widens the gap between supply and demand, indirectly resulting in higher prices overall.

There are also instances when taxes and fees rise after land is purchased by a builder. If these cost increases exceed the project risk margin, it may be delayed (until prices/rents increase) or not built at all; both would undermine affordability.

In 2018, UDI conducted a similar analysis, where it was identified that the purchaser of a new condo unit in Vancouver could be paying up to 26% of the cost of their unit in taxes and fees. Between 2018 and today, builders have seen unprecedented cost increases in all budget areas, including construction costs, insurance, and financing, alongside dramatic increases in government charges. The updated Vancouver condo analysis demonstrates a project that is not viable in today's environment if the purchase price for a 700 sq. ft. one bedroom unit were set at $980,000. The estimated hard costs and contingency, land costs, and government taxes and fees nearly exceed the total market value revenue for the project. The project is facing viability challenges even before the estimates of soft costs, financing, and the margin for risk is factored in. This renders the project unviable and would likely not be financeable.

The market-driven cost increases, in combination with higher taxes and fees, has led to a significantly more risky environment for builders to provide much-needed housing in British Columbia.

The condo example from Saanich illustrates that between 8.66% and 10.32% of the cost of housing is attributed to taxes and fees, while a comparable project in Vancouver could have government charges nearly three times as high.In the condo example from Kelowna, 12.97% to 14.63% of the potential purchase price is attributed to taxes and fees. Both the Saanich and Kelowna examples demonstrate that despite the lower percentage of taxes and fees relative to the price of a new unit, there are still challenges in both regions. The layering of these charges along with other costs will still impact project budgets. Jurisdictions across B.C. are seeing supply unable to keep up with demand, putting pressure on home prices of all types and the availability and affordability of housing.

In the City of Vancouver, there are additional taxes and fees on new housing development such as the recently increased Empty Homes Tax (EHT) and the Public Art fee. There are also regional charges such as the TransLink DCC, the newly increased Greater Vancouver Sewer DCC, and the Water DCC, which is pending approval from the Province. These line items impact the costs associated with new housing. The layers of taxes and fees on projects often coincide with communities where housing is greatly needed.

The current analysis also examines a purpose-built rental development in Vancouver. For the renter of a new unit at $2,698 per month, it is estimated that approximately one-third of their monthly rent, or $882.70, could be paid towards the government taxes and fees which were incurred during the development process. The challenges associated with rising costs and uncertainty are especially significant for rental housing. Rental housing projects are viewed as long-term investments, with tight budgeting processes. If there are unexpected changes in government charges, projects can quickly be rendered unviable. In addition, builders may not be willing to take on the risk of additional charges and will look for other investment opportunities that provide more certainty. This has a significant impact on the ability to deliver new rental housing to an underserved market, creating additional pressure on rents for existing homes.

In CMHC's most recent Rental Market Report, it was identified that vacancy rates in Vancouver's Census Metropolitan Area (CMA) dropped from an already-low 1.2% in 2021 to 0.9% in 2022. There has been an uptick in supply in the past year, however, demand continues to outpace the creation of new rental housing. This has led to decreased vacancy rates and higher rents for the units that are available on the market.[2]

Rental developments have significantly higher equity requirements than condo developments, contributing to the cost sensitivities in the initial budgeting process. Rental developments, unlike strata and condo projects, cannot gather equity from presales. Rents can only be charged once the units are occupied, and initial rents are generally determined by the market at the time, regardless of the additional cost pressures which may occur during the permitting and construction process.

As policies change, often resulting in increased costs, the development process becomes riskier.

Municipalities and the Province need to mitigate these risks in order to support new housing development, especially purpose-built rental. This report examines one of the key development risks and drivers of new housing costs - taxes and fees - and provides recommendations for governing bodies to reduce barriers to new housing delivery.

Breaking Down the Taxes & Fees

The critical challenges associated with the cost of building new homes are rarely caused by individual taxes and fees. This report outlines several government charges analysed in the examples, however there are many other government-driven costs that affect new housing. For example, inclusionary zoning requires builders to incorporate a fixed percentage of below-market housing into their projects. These homes are typically restricted to rental use and generally have a value that is significantly less than the cost to construct them. As a result, this shortfall must be distributed across all of the other units within a development unless this cost is offset through density or a public program. If more density is provided, enough to offset the costs of building below-market units, this results in more housing supply added to the overall housing continuum. If the additional costs on these units exceed market values, it could undermine the project.

Similarly, green building requirements for new buildings add to the construction cost, as high efficiency materials and systems are incorporated into the building design. While this cost is not paid directly to governments, it is generated by government policy, and unexpected changes can impact project viability.

While we support the addition of below-market rental housing and green building practices in new buildings, both of these requirements add to the collective burden of charges and costs imposed by all levels of government that put strain on project finances. Any of these policies and charges can change throughout the development process, making housing delivery less certain. In addition to this, separate levels of government rarely coordinate policies and charges, resulting in a piling-on effect.

Empty Homes Tax (EHT), Speculation and Vacancy Tax (SVT) & Additional School Tax (AST)

The applicability of taxes and fees on new housing can be difficult for builders to navigate. Taxes such as Vancouver's Empty Homes Tax (EHT) and British Columbia's Speculation and Vacancy Tax (SVT) are intended to target similar market issues at two different jurisdictional levels. Both taxes are collected on vacant homes to generate funds for affordable housing while incentivizing owners to contribute to the secondary rental market. The Additional School Tax (AST), applied to the amount of a property's residential value over $3 million, is an annual charge factored into a builder's budget as part of the residential property tax. The evaluation of these taxes during the development process is made more complicated by their differing applicability and exemption criteria. The SVT requires *Building Activity* criteria to be met in order for a project to be exempt. For Vancouver's EHT, the exemption is defined by a *Letter of Enquiry (LOE)*, which differs from the AST exemption of *Construction Activity*.

In Vancouver, if developments do not meet the necessary exemptions, they could attract both the SVT and EHT, and end up paying increased AST depending on the length of the approvals process. For example, a project may meet the *Building Activity* exemption thresholds for the provincial SVT, but still be required to pay the EHT in Vancouver if the project has not submitted an *LOE*. The *LOE* process was initially intended as a high-level application to understand the merits of a project, however in recent years it has grown into a more detailed application, adding time to the process and making it more difficult to meet the EHT exemption threshold. In addition, the longer a property is in the approvals process, the more property tax is paid on the land. AST adds to this burden, as it is charged alongside property tax.

Aligning exemptions for similarly focused tax measures would streamline the budgeting process for new housing.

Funds collected through both the EHT and SVT are intended to increase the availability and affordability of housing within Vancouver and the province, but can ultimately pose as a barrier to the delivery of new homes. For the AST, development sites that have a high residential value when they are assembled can attract this tax while the developer is awaiting permit approvals. As AST is charged annually, it is dependent on approvals timelines to determine the overall cost burden on the project budget. Exemptions for new developments would eliminate the impact of the AST on the cost of new housing. In addition, faster permitting timelines would mitigate the impacts of annual property taxes in general. Applying the exemptions allowed in the SVT legislation to the AST and EHT would improve the complicated application of these taxes on new housing developments.

Federal Goods and Services Tax (GST)

The Federal Goods and Services Tax (GST) is not a new cost, but it has substantial impacts on the ability to deliver much-needed rental housing. For purpose-built rental builders, it is often the most impactful tax or fee that is charged on a project. GST rebates were introduced to incentivize rental development; however, they are no longer effective in many urban centres. The qualification thresholds are set at a national level and the unit values do not vary based on jurisdiction. Compounding their ineffectiveness, these thresholds have not been updated since they were introduced nearly two decades ago.

For rental housing, GST rebates are available for new residential rental units with a fair market value below $350,000 and partial rebates for units valued up to $450,000. There are no rebates available for new rental housing exceeding $450,000 in value. This is an issue in jurisdictions that cannot meet the rebate thresholds. In an estimate completed by a rental housing developer, a 430 sq. ft. studio unit in a new rental building in downtown Vancouver could be valued at approximately $554,000 based on current market rents in new buildings. Even a studio exceeds the rebate threshold value and therefore would not meet the rebate eligibility criteria, larger units in Vancouver would almost certainly be required to pay the full GST amount. The GST rebate criteria is a substantial barrier in areas where demand for rental housing far exceeds supply and market values are high. This results in a situation where markets that are most in need of new rental housing are least likely to receive a GST rebate.

While all levels of government acknowledge the need to increase the supply of rental housing, the way in which the GST is applied is counter-productive to that goal. GST is the largest single tax or fee in a rental project budget.

There has been a substantial increase in market values over the past 20 years, and the rebate thresholds for rental development should be revised to reflect inflation and the rise in housing prices. The GST rebate should also be varied by local CMA. This would incentivize rental housing development in the jurisdictions with some of the greatest housing availability challenges, such as in Vancouver, the Capital Region or Okanagan. In the Vancouver rental analysis, GST could account for nearly 10%, or $250.60, of the average unit starting rent paid per month. Removing this charge or offering a rebate would eliminate one of the most significant barriers to delivering new rental homes.

GST Allocation in the Vancouver Rental Budget Example

	Size	Per unit
Monthly Rent	675	$2,698
GST		$250.60

Development Cost Charges (DCCs) and Development Cost Levies (DCLs)

Development Cost Charges (DCCs) and Development Cost Levies (DCLs) can be set at both the local and regional level. These fees are levied on new developments to fund infrastructure-related expenses that support growth, such as water and sewer services or parks.

Regional DCC Infrastructure Categories
Transportation
Water
Sewer
Municipal DCC Infrastructure Categories
Road
Sewer
Water
Drainage
Parkland Acquisition and Improvements
City of Vancouver DCL Infrastructure Categories
Road
Sewer
Water
Drainage
Parkland Acquisition and Improvements
Child Care Facilities
Replacement Housing (Social/Non-Profit Housing)

It is understood that growth needs to pay for growth, however, increasing DCC and DCL rates with inadequate notice and the layering of both local and regional charges adds to project costs, which become a component of the purchase price or monthly rent.

When the budgeting stage of the development process is complete, the project viability is based-on what policies are in place at the time. While DCCs are intended to undergo a comprehensive review at least every five years and can be indexed to inflation, there are a number of municipalities that do not follow these best practices. DCCs can increase intermittently and without a fixed schedule. DCC and DCL changes with inadequate notice can result in builders paying higher fees after purchase commitments have been made and significant redevelopment costs have been incurred. This can impact whether the project can be built at all.

The Provincial DCC and DCL framework allows for some in-stream protections to guard against this challenge. Outlined in Sections 568 and 511 of the *Local Government Act (LGA)*, a "pre-curser application" must be in-stream, meaning a building permit, development permit, rezoning or subdivision application. This would satisfy the first stage of an "in-stream" application, and the second stage would be met if a building permit is issued within 12 months of the adoption of the increased rates.[3] These protections set by provincial legislation were introduced over 10 years ago. Since then, the municipal approval process has increased in complexity and staffing shortages within municipalities have put strain on the ability to process applications.

In the 2022 Municipal Supply and Benchmarking Study released by the Canadian Home Builders' Association of B.C. (CHBA BC), it is identified that the average municipal approval timelines in B.C. are 14.2 months for a rezoning approval, and 13.6 months for a development permit. In the project budgets analysed, a building permit can take anywhere between 6-12 months for approval. In municipalities facing staffing shortages, permits can take even longer. The CHBA BC's report states that, *"Shorter timelines can help improve the responsiveness of housing supply to demand."*[4] Shorter approval timelines would provide greater certainty that projects could qualify for in-stream protections if DCC or DCL rate changes occurred during the approval process. This would avoid the builder paying higher fees than they had previously budgeted for. In addition, phasing-in substantial DCC or DCL increases over a multi-year period would mitigate the budgetary impact for projects that are in-stream but unable to receive their building permit within the first year after the new rates are approved. In-stream cost increases are a risk when combined with the overall burden of taxes and fees, and make it more challenging to develop new housing.

Developers are often required to deliver cash or in-kind contributions for infrastructure. In Metro Vancouver, a housing project will pay DCCs to fund infrastructure that facilitates the provision of regional utilities like water and sewer delivery. The project will also pay municipal DCCs or DCLs for new or upgraded systems within their local community. In the Vancouver condo example, the Regional DCCs and Municipal DCCs charged on the development of an average unit total $31,910. This amount will increase by a further $4,261 with the anticipated addition of Metro Vancouver's new Water DCC in 2023.

DCC rebates can be available, but developers are not always able to access these rebates after the infrastructure has been financed. This creates a level of risk associated with paying for, or directly building, growth-related infrastructure as part of the development process. The issue is compounded in an inflationary environment, when financing requirements are increased and more difficult to achieve. Increases can occur to multiple types of government charges in a short time period, emphasizing the need for coordination across levels of government. This can result in developers paying up to three separate charges for various parts of new service. This type of layering of taxes and fees contributes to the overall burden of taxes on a new housing project.

Community Amenity Contributions (CACs)

Community Amenity Contributions (CACs) can be a very unpredictable cost in the delivery of new housing. A CAC is another fee levied by some municipalities, outside of the legislative framework provided by the Local Government Act and Community Charter (or Vancouver Charter). CACs are commonly used to fund amenities such as childcare, community facilities, park upgrades, and affordable housing, but funds are ultimately allocated by the municipality.[5] In the Vancouver rental example, the CAC could account for $161.30 of the average monthly rent per unit, or 5.97%, and in the Vancouver condo example the CAC could contribute $89,992 to the cost of an average unit. The CAC rates in Vancouver are greater than the CACs budgeted in the other examples in this analysis.

If the CAC amounts are negotiated with the municipality, the process can take several years to reach a conclusion. This can create a risk so high that builders may decide not to proceed with a new housing development. While the scenarios in this analysis have fixed CAC rates, some municipalities, including the City of Vancouver, also use negotiated CACs which are much harder to calculate into the budgeting process. Although fixed CAC rates provide more predictability, CACs in general are a burden on any new housing development, adding more costs to projects. If these costs exceed project revenue or the amount a project can bear, after other costs have been fixed (ie. land cost), the project may be delayed, or not built at all.

In the Vancouver rental example, the CAC could be charged at $25.61 per sq. ft. and in the Vancouver condo example, the CAC could be more than four times as high, totalling $112.49 per sq. ft. Supplying new housing, especially rental housing, is critical to meet the demands of a growing population, but high CAC expectations can create a burden big enough to render a project unviable. If a project does not proceed it will reduce the new housing supply as well as the funding for amenities.

CAC - Vancouver Rental Example

	Per unit	Total Charge per sq. ft.
CAC per unit	$161.30	*$25.61*
Total Fees per unit	**$882.70**	

CAC - Vancouver Condo Example

	Per unit	Total Charge per sq. ft.
CAC	89,992.00	*$112.49*
Total Fees per unit saleable	**$327,565.53**	*$409.46*

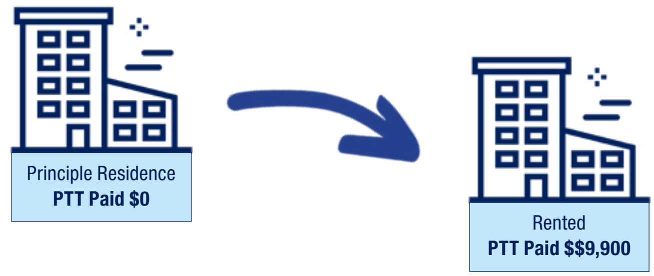
Property Transfer Tax

In all of the condo examples, there is potential for the Property Transfer Tax (PTT) to be charged twice. This tax is charged when the builder assembles a site, and becomes embedded in the cost of the housing. It then can be charged again if the unit purchaser does not meet all of the PTT exemption requirements.[6] Both of these PTT charges have been included in the budget of the development projects analysed to show the range of PTT an end user could pay. There are several types of exemptions a buyer could qualify for, including the Newly Built Home Exemption, which would apply to housing purchased from a developer. To qualify for this exemption, the unit must:

- Be located in British Columbia;
- Only be used as a principal residence;
- Have a fair market value of $750,000 or less; and
- Be 0.5 hectares (1.24 acres) or smaller.

All criteria have to apply for the purchaser to qualify for an exemption. In the Vancouver condo example, the average unit is above the value threshold and would not be eligible for a PTT exemption. In the Saanich and Kelowna examples, the average unit would meet the fair market value criteria. However, the purchaser could still pay the PTT at the time of purchase if the unit is intended to be rented out and would not be the buyer's primary residence.

If an investor purchases a new unit for the purpose of renting it out, rather than living in it themselves, the PTT on the sale of the completed unit would apply. In the Saanich example, this could be an additional $10,062.00 cost for the average unit, and would become part of what the renter would pay. If the purchaser meets all of the PTT exemption criteria, including the criteria of purchasing the unit as their principal residence, the PTT charge on the purchase would be $0 at the purchaser stage. In the Kelowna scenario, the PTT charged on the purchase of the average unit could either be $0 or $9,900, dependant on the purchaser's eligibility to meet the exemption criteria.



Public Art Fee

A municipal Public Art Fee is another type of cash contribution charged to a project to raise funds for public amenity projects. In the Vancouver condo example, this is a charge of $1,584.00 per unit, and in the Vancouver rental example, the charge could impact rent by $12.50 per month. While this is a lower charge, it still contributes to the layered taxes and fees charged on housing.

Municipal Permits

In B.C., municipal permits refer to a wide range of approvals. In this analysis, the examples have included development and building permits. In the Vancouver rental example, it can take anywhere from 6-12 months to receive a development permit, and a further 6-10 months for a building permit. Municipalities such as Vancouver are recognizing the negative impacts of long processing times, and are working to streamline their reviews and approval processes.

Vancouver Rental Example - Project Timeline				
48-90 MONTHS TOTAL				
12-18 Months Rezoning	**6-12** Months Development Permit	**6-10** Months Building Permit	**18-42** Months Construction	**6-8** Months Lease Up Period

Permitting: **24-40 Months** → Construction & Leasing: **24-50 Months**

Recommendations

Building the housing supply that is required to meet British Columbia's current needs and planning for future growth will take action by all levels of government.

The recommendations outlined in this report are only some of the tools to address taxes and fees as barriers to new housing delivery. Some of these recommendations build on the opportunities identified by the *Development Approvals Process Review* *(DAPR)* and recommendations of the *Canada-B.C. Expert Panel on Housing Supply and Affordability* *(Expert Panel)*, to improve processing times and streamline development approvals at the local and provincial levels. Other recommendations include tax-specific solutions to create certainty for home builders, and intentionally support the development of new rental housing.

Streamline Development Approval Processes

Steps must be taken to streamline approvals and minimize the impact of annual property taxes, as well as better coordinate government charges to reduce the layers of taxes and fees that apply to new housing. Lengthy development processes add costs to new housing in the form of both time and funding. Considering the extensive rezoning timelines in jurisdictions such as Vancouver, holding costs such as property taxes and interest can become significant while the project goes through the development approvals process. Uncertainty in the total amount of charges on a project add a level of risk that can jeopardize the viability of the project.

Establish Standardized Timelines and Processes

UDI recommends that municipalities establish standardized and predictable development approval timelines and processes. This recommendation aligns with the *Expert Panel*, which advised that *"the B.C. government impose statutory time limits to all stages of the property development process, municipal or other, for all types of development."*[7] Currently, larger developments can take many years to reach final approval due to the capacity constraints of municipal staff, competing policy objectives, negotiated CACs, and lengthy Council proceedings. Streamlining municipal approvals could address the risks associated with taxes that are charged annually, such as the AST. It could also minimize the impact of changes to DCC, DCL, and CAC rates on in-stream projects. Additionally, offsetting increases in community amenity contributions with added density would help maintain the viability of a project, and ultimately support the growth of the full housing continuum.

Incorporate Pre-zoning into Official Community Plans

Pre-zoning sites would reduce a project's approval timeline by decreasing the time and risks associated with a full rezoning process. The *DAPR* recognizes the opportunity to *"Provide training to local governments and/ or create best practices guide on conducting a meaningful and robust public consultation process for OCP and pre-zoning, then delegate approval of subsequent applications."*[8] In the Vancouver and Saanich examples, it is estimated that rezoning could take anywhere from 12-26 months. The taxes incurred during this time, and the uncertainty embedded within the public-hearing process, adds risk to the delivery of new housing. Approaches could include pre-zoning at the end of area planning processes, or pre-zoning within 800 metres of major transit hubs. This would improve certainty for builders and speed up the approvals process, reducing both cost and time barriers to new housing delivery.[9]

Remove Barriers to Purpose-Built Rental Supply

Rental development is especially sensitive to tax and fee changes, and faces unique challenges; it is a long-term investment for developers requiring stability in the regulatory environment. Secured market rental housing is a critical part of the housing continuum. The 2021 Census data shows the share of renter households is growing in communities across B.C. In the Vancouver CMA, 37.9% of households rent, and the portion is even higher in the City of Vancouver, where renter households make up 54.5% of the city. In the Victoria CMA, the share of renter households was effectively the same as Metro Vancouver at 38%, while in the Kelowna CMA, the percentage is slightly lower at 29.2%.[10] However, new Statistics Canada housing data also shows that the percentage of Kelowna's renter households grew 54.1% between 2011 and 2021, a higher growth rate than any other CMA in Canada.[11] All levels of government acknowledge that there is not enough rental housing supply to meet the current demand, let alone the needs of a growing province. With vacancy rates well below the national average in many communities, and 0.9% in Vancouver's CMA, the availability of rental housing remains a critical concern.[12]

Eliminate Community Amenity Charges

Eliminating CAC requirements for purpose-built rental development would reduce some of the time and cost barriers to new housing delivery. Local governments have the opportunity to recognize the economic difference between rental and condo developments by reducing the burden of taxes and fees on rental housing.

Reduce or Eliminate the GST

The application of the Federal GST creates a substantial added cost to the delivery of rental housing. While there are rebates available for new housing, they are not effective in many British Columbian markets where values are high.

UDI recommends a review and revision of the rebate thresholds to more accurately reflect current values in local markets. By limiting the availability of GST rebates to unit values at $450,000 or less, many homes are excluded in urban areas of Metro Vancouver, the Capital Region or Central Okanagan. Raising these thresholds would allow the rebates to more effectively support new rental supply, rather than creating another barrier.

Reduce the Impact of Layered Government Charges

The development process must be modernized and brought into alignment with other levels of government that regulate new development. The layered taxes and fees on housing at local, regional, provincial and federal levels can be difficult for builders to navigate. Individual taxes and fees do not typically create significant burdens on a project budget.

It is the cumulative impact of charges from all levels of government that creates a barrier to new housing delivery.

Allow Exemption Thresholds to Rise with Inflation

Allowing tax thresholds to rise with inflation could make the tax system more conducive to housing delivery in higher value markets, especially in the case of rental housing.

At the federal level, structuring GST rebate thresholds to rise with inflation would ensure that they reflect more current market conditions. When the rebates were introduced approximately 20 years ago, most rental units would have qualified for at least some part of the rebate, however this is not the case today in many parts of B.C. In addition, having the rebates vary based on CMAs would ensure new housing development is incentivized in the areas where it is needed most. In these local markets, the demand is high and the supply is low, causing high market values and the inability for builders to qualify for the rebate.

Provincially, the Newly Built Home Exemption for the PTT is also capped at a fixed property value, and is not differentiated by region. This results in the application of the PTT to the average unit in the Vancouver condo example, but not necessarily in Saanich or Kelowna. As values continue to rise with inflation, the average units in the Capital Region and Okanagan may soon attract this tax as well. By allowing the exemption threshold to rise with the cost of housing, it ensures that it remains an effective tool to target support for new housing supply, especially if it is linked to the local market.

Conduct a Review of Development Finance Mechanisms

A provincial policy review of DCC/DCL rates and CACs could address the risks associated with amenity negotiations in order to secure rezoning approvals. The Expert Panel report notes that, *"While new development or redevelopment should be expected to pay its share of infrastructure or amenity costs incurred by cities, setting fees too high means unnecessarily raising the price of both new housing and existing housing across the city."*[13] It is recognized that growth needs to pay for growth, but as municipal infrastructure and amenity charges increase, they can impact project viability – especially if the negotiation process is lengthy, or there is a rate change after a project budget has been completed.

UDI recommends that the Province implement a cap on the amount that development charges could cumulatively increase in a calendar year to reduce the impact on new housing when provincial, regional, and municipal charges are increased separately. Introducing a cap would also ensure that large DCC or DCL changes are phased in, reducing the risks associated with large increases after a project has been through the budgeting process. Implementing fixed CAC rates would allow builders to have security after they have purchased land and finalized financial agreements, and contribute to a more certain development process. However, these amenity and infrastructure charges are still expensed as a cost to new housing, contributing to a layer of fees that a project budget must bear. If the costs exceed the amount that can be supported by the market, it will result in projects being deferred or changed, further impacting the availability of housing, particularly in under-supplied areas.

UDI recognizes the long-term impacts of new housing delivery challenges today. Taxes and fees are just one of the many barriers to new housing development, but must be addressed by all levels of government in order to support new housing supply. With the implementation of these recommendations, governments can take steps to:

1. **Streamline development approval processes;**
2. **Remove barriers to purpose-built rental supply; and**
3. **Reduce the impact of layered government charges.**

Appendix

The examples illustrate the amount that taxes and fees contribute to the cost of new housing. For each of the four examples, the itemized taxes and fees charged on new housing are shown alongside the cost estimates for project value, construction costs and development timelines. Each example is intended to illustrate a mid-rise residential project.

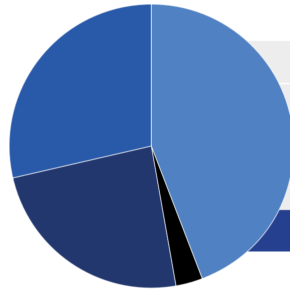
Typically, 15% profit on cost is needed to receive financing for a project. Banks require a high degree of certainty in a project's success in order to provide financing. This profit on cost allowance is also designed to mitigate the impact of cost increases over the life of the project, these include escalations in the cost of construction materials and labour as well as new government requirements. If the cost burden of taxes and fees increases unexpectedly, it reduces this allowance, making the project more risky and less likely to be built. In the case of the Vancouver condo budget example, the costs associated with development nearly exceed the revenue, rendering the project unviable when the profit on cost is taken into account.

The cost estimates in the project examples were recorded as of September 2022, including approved rate increases beginning in January 2023, to capture the current taxes and fees rates and the future changes anticipated by builders in their budgeting process. The new Metro Vancouver Water DCC has not yet come into effect, and therefore is excluded from the budget tables. A footnote is included in the Vancouver condo and rental examples to show the impact this new DCC could have. Regulatory and market changes can cause fluctuations in a project budget, resulting in varied estimates among builders and tax experts, and an uncertain environment for taking on risk. These examples are hypothetical projects underwritten with the best available estimates, and are therefore subject to change.

Vancouver Rental Budget Example

This example demonstrates a typical wood-frame purpose-built rental development in Vancouver. Unlike the other examples, this project requires long-term certainty for returns, and therefore includes calculations of operating expenses, net operating income, vacancy rates, and capitalization rates.

Vancouver Rental Taxation by Level of Government



Municipal	$390.80	44.27%
Regional	$28.10	3.18%
Provincial	$213.20	24.15%
Federal	$250.60	28.39%
Total	$882.70	100.00%

HARD COSTS AND LAND VALUE		% OF RENT/ $ PER SQ. FT.
Building Value Attributed to Unit	0.79%	
Buildable Sq. Ft.	100,000	
Hard Costs + Contingency	$42,000,000	$420.00
Land Value	$9,500,000	$95.00
Units	126	

BUILDING VALUATION AND REVENUE		Notes
Net Operating Income	$3,182,400	Based on a 2% vacancy rate
Cap Rate	4.00%	
Value	$79,560,000	
Revenue		
Value per Rentable sq. ft.	$936	
Market Rental Revenue per sq. ft.	$4	
Rentable sq. ft.	$85,000	
Annual Revenue	$4,080,000	

GOVERNMENT TAXES AND FEES	AVG. UNIT SIZE	PER UNIT/MONTH	Notes / per sq. ft.
Monthly Rent	675	$2,698	Average unit size multiplied by average rent
Building Permits		$10.80	0.41% of Hard Costs
Development Permit		$5.30	0.20% of Hard Costs
Empty Homes Tax		$29.90	5% of Land Cost
DCL - Residential		$171.00	$31.92 per residential sq. ft.
DCC TransLink - Residential		$12.30	$1,554 per unit
Greater Vancouver Sewer DCC		$15.80	$1,988 per unit
Public Art		$12.50	$1.98 per sq. ft.
Property Tax During Construction		$37.80	Avg. Property Tax During Construction for a Residential property
Property Tax		$175.40	Assumes Property Taxes are 6.5% of Rental Income
GST		$250.60	5% of unit value
CAC per unit		$161.30	$25.61 per sq. ft.
Total Fees per unit		**$882.70**	
Total Gov. Fees as a % of Rent		32.72%	

* The Metro Vancouver Water DCC has been given Third reading, and is now under review by the Province. If this scenario included the Water DCC in its budgeting process, this charge would increase the total fees per unit/month to $916.50, or 33.96% of the total government fees as a % of rent.

Project Timeline				
48-90 MONTHS TOTAL				
12-18 Months Rezoning	**6-12** Months DevelopmentPermit	**6-10** Months Building Permit	**18-42** Months Construction	**6-8** Months Lease Up Period

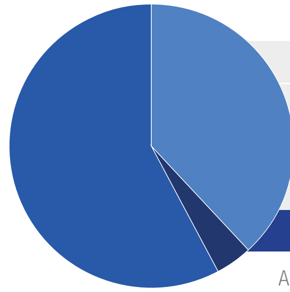
Permitting: **24-40 Months**

Construction & Leasing: **24-50 Months**

Saanich Condo Budget Example

This Saanich example illustrates a typical wood-frame condo development in the Capital Region.

Saanich Condo Taxation by Level of Government



Municipal	$19,879.00	38.08%
Regional	$0	0.00%
Provincial	$2,164.68	4.15%
Federal	$30,153.75	57.77%
Total	$52,197.43	100.00%

Assuming the purchaser is exempt from the additional PTT charge

Building Assumptions

BUILDING VALUATION AND REVENUE		NOTES / PER SQ. FT.
Total Market Value Revenue	$55,789,580	$935.00
Buildable Sq. Ft.	59,668	
Hard Costs + Contingency	$29,177,652	$489.00
Land Value	$5,071,738	$85.00
Units	79	

	SIZE	PER UNIT IF PURCHASED FOR PRINCIPAL RESIDENCE	PER UNIT IF PURCHASED BY AN INVESTOR TO RENT OUT	Notes / per sq. ft.
Average Unit Value	645	$603,075	$603,075	Average unit size multiplied by revenue per buildable
Per sq. ft. charges				
Building Permits		$4,652.00	$4,652.00	
Development Permit		$102.00	$102.00	
DCC - Residential		$7,605.00	$7,605.00	Development Cost Charge (DCC)
Property Transfer Tax		$1,031.00	$1,031.00	Property Tax - Purchase of an assembled site
Property Tax incl. AST		$808.98	$808.98	Additional School Tax (AST)
Per unit charges				
GST		$30,153.75	$30,153.75	5.00% of unit value
Property Transfer Tax		$0.00	$10,062.00	Property Tax - Paid by Purchaser if not exempt
CAC per unit		$5,339.00	$5,339.00	Community Amenity Contribution
Subtotal Fees per unit buildable		$49,691.73	$59,753.73	
Total Fees per unit saleable		**$52,197.43**	**$62,259.43**	$80.93 per sq. ft.
Total Gov. Fees as a % of Unit Value		8.66%	10.32%	*Attributed based on saleable sf for the average unit.

Cost by Unit Type

COST ON TYPICAL UNITS	SIZE	TAXATION $	TAXATION %	PURCHASE PRICE
Bachelor	477	$38,602	8.66%	$445,995
One Bedroom plus Den	570	$46,128	8.66%	$532,950
Two Bedroom	850	$68,787	8.66%	$794,750

*The purchaser of the bachelor unit could be eligible for the GST New Housing Rebate after the purchase at this price.

Project Timeline

73 MONTHS TOTAL

6 Months Application Preparation	**26** Months Rezoning and Development Permit	**6** Months Building Permit	**7** Months Building Permit Review	**28** Months Construction

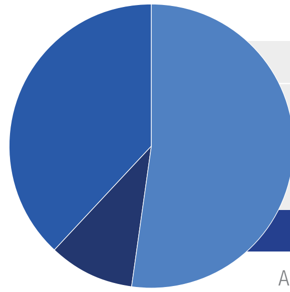
Permitting: **39 Months**

Construction: **28 Months**

Kelowna Condo Budget Example

This example demonstrates a typical wood-frame condo development in Kelowna.

Kelowna Condo Taxation by Level of Government



Municipal	$39,650.00	51.39%
Regional	$0	0.00%
Provincial	$7,754.39	10.05%
Federal	$29,750.00	38.56%
Total	$77,154.39	100.00%

Assuming the purchaser is exempt from the additional PTT charge

Building Assumptions

BUILDING VALUATION AND REVENUE		NOTES / PER SQ. FT.
Total Market Value Revenue	$41,122,900	$700.00
Buildable Sq. Ft.	58,747	
Hard Costs + Contingency	$21,001,963	$357.50
Land Value	$4,700,000	$80.00
Units	69	

	SIZE	PER UNIT IF PURCHASED FOR PRINCIPAL RESIDENCE	PER UNIT IF PURCHASED BY AN INVESTOR TO RENT OUT	Notes / per sq. ft.
Average Unit Value	850	$595,000	$595,000	Average unit size multiplied by revenue per buildable
Per sq. ft. charges				
BP/DP/DCCs		$33,702.50	$33,702.50	Bldg Permits, Dev Permits, Dev Cost Charges
Property Transfer Tax		$2,213.73	$2,213.73	Property Tax - Purchase of an assembled site
Property Tax incl. AST		$4,377.50	$4,377.50	Additional School Tax (AST)
Per unit charges				
GST		$29,750.00	$29,750.00	5.00% of unit value
Property Transfer Tax		$0.00	$9,900.00	Property Tax - Paid by Purchaser if not exempt
Subtotal Fees per unit buildable		$70,043.73	$79,943.73	
Total Fees per unit saleable		**$77,154.39**	**$87,054.39**	$90.77 per sq. ft.
Total Gov. Fees as % of Unit Value		12.97%	14.63%	*Attributed based on saleable sf for the average unit.

Cost by Unit Type

COST ON TYPICAL UNITS	SIZE	TAXATION $	TAXATION %	PURCHASE PRICE
Bachelor	500	$45,385	12.97%	$350,000
One Bedroom plus Den	700	$63,539	12.97%	$490,000
Two Bedroom	880	$79,877	12.97%	$616,000
Family 3 bed unit	1,160	$105,293	12.97%	$812,000

*The purchaser of the bachelor unit could be eligible for the GST New Housing Rebate after the purchase at this price.

Project Timeline	
48-60 MONTHS TOTAL	
12-18 Months Rezoning, Development Permit and Building Permit	**24-36** Months Construction

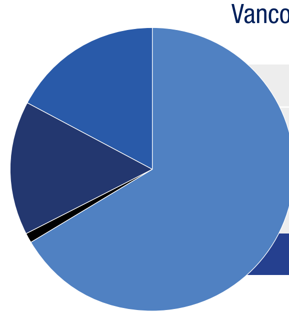
Permitting: **12-18 Months**

Construction: **24-36 Months**

Vancouver Condo Budget Example

This budget example shows the costs that go into a typical wood-frame condo development in the City of Vancouver.

Vancouver Condo Taxation by Level of Government



Municipal	$218,014.12	66.56%
Regional	$3,542.00	1.08%
Provincial	$50,009.41	15.27%
Federal	$56,000.00	17.10%
Total	$327,565.53	100.00%

Building Assumptions

BUILDING VALUATION AND REVENUE		NOTES / PER SQ. FT.
Total Market Value Revenue	$59,500,000	$1,400.00
Buildable Sq. Ft.	50,000	
Hard Costs + Contingency	$30,000,000	$600.00
Land Value	$18,750,000	$375.00
Units	53	

	SIZE	PER UNIT	Notes / per sq. ft.
Average Unit Value	800	$1,120,000	Average unit size multiplied by revenue per buildable
Per sq. ft. charges			
Building Permits		$1,376.00	
Development Permit		$3,992.00	
Empty Homes Tax		$60,000.00	5.00%
DCL - Residential		$28,368.00	Development Cost Levy (DCL)
Property Transfer Tax		$13,688.00	Property Tax - Purchase of an assembled site
Property Tax incl. AST		$11,480.00	Additional School Tax (AST)
CAC		$89,992.00	Community Amenity Contribution
Public Art		$1,584.00	
Per unit charges			
GST		$56,000.00	5.00%
Greater Vancouver Sewer DCC		$1,988.00	Flat rate per unit
Translink DCC		$1,554.00	Flat rate per unit
Property Transfer Tax		$20,400.00	Property Tax - Paid by Purchaser if not exempt
Subtotal Fees per unit buildable		$290,422.00	
Total Fees per unit saleable		**$327,565.53**	$409.46 per sq. ft.
Total Gov. Fees as % of Unit Value		29.25%	*Attributed based on saleable sf for the average unit.

*The Metro Vancouver Water DCC has been given Third reading, and is now under review by the Province. If this scenario included the Water DCC in its budgeting process, this charge would increase the total fees per unit to $331,826.53 or 29.63% of the total government fees as a % of the unit value.

Cost by Unit Type

COST ON TYPICAL UNITS	SIZE	TAXATION $	TAXATION %	PURCHASE PRICE
Bachelor	500	$204,728	29.25%	$700,000
One Bedroom plus Den	700	$286,620	29.25%	$980,000
Two Bedroom	900	$368,511	29.25%	$1,260,000
Family 3 bed unit	1,200	$491,348	29.25%	$1,680,000

Project Timeline

76-84 MONTHS TOTAL

12-18 Months Rezoning	**10-12** Months Development Permit	**12** Months Building Permit	**42** Months Construction

Permitting: **34-42 Months** → Construction: **42 Months**

References

1. Canada Mortgage and Housing Corporation. “Housing Market Information: Canada’s Housing Supply Shortages: Estimating what is needed to solve Canada’s housing affordability crisis by 2030” (June, 2022), 24.

2. Goodman Commercial Inc. “Goodman Report: 2021 Metro Vancouver Rental Apartment Review” (February 2022), 13.

3. Similar language is in the Vancouver Charter regarding Development Cost Levys (DCLs). VANCOUVER CHARTER [SBC 1953] CHAPTER 55 Part XXIV-A – Development Cost Levies. https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/vanch_255#partXXIV-A

4. Altus Group. “Municipal Housing Supply and Benchmarking Study, Canadian Home Builders’ Association of British Columbia” (2022), vii.

5. Unlike DCCs and DCLs, which are set by Provincial Regulations and the Vancouver Charter respectfully, there are no regulated in-stream protections for CAC increases.

6. There is also potential for the PTT to be charged three times on the same unit. This occurs when a builder purchases an already-assembled site. The PTT would have been paid at the time of assembly, then again when the builder purchases the already-assembled site, and a third time when the unit is sold.

7. The Province of British Columbia. “Opening doors: unlocking housing supply for affordability: Final report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability” (2021), 26.

8. The Province of British Columbia. “Development Approvals Process Review: Final Report from a Province-Wide Stakeholder Consultation” (2019), 13.

9. Municipalities can pre-zone areas and still collect funds for community amenities and necessary infrastructure when density bonusing is used to offset the costs.

10. Statistics Canada. “Focus on Geography Series, 2021 Census of Population: Vancouver CMA, Vancouver City, Victoria CMA, Kelowna CMA.” (Updated October, 2022).

11. Statistics Canada. “Map 2: Number of renter households grows the most in Kelowna and the least in Saguenay” (Modified: November, 2022).

12. The Province of British Columbia. “Opening doors: unlocking housing supply for affordability: Final report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability” (2021), 29.

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