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Real Estate Investment Think Bob Bracken

The New 15% Non Resident Property Purchase Tax

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New 15% Non Resident Property Purchase Tax By Bob Bracken

On July 28, the BC Liberal Government passed Bill 28 - the new Property Transfer tax - adding 15% to the price of all residential home and multifamily property purchases closing after August 2. The tax applies only to purchases by non residents of Canada (Asia, Europe, US etc), and does not apply to Commercial, Industrial, Farm etc properties. It only applies to properties in the Greater Vancouver Regional District, and does not include properties outside of that District, including Squamish, Whistler, Mission, Abbotsford, and all points North in the Province. Tax went into effect on August 2 and applied to all transactions closing after that date, even if the agreements were unconditionally in place months prior to that date - ie the tax is being applied retroactively. Many sales contracts were caught by this, and many Buyers were trapped into unforeseen financial stress by the Gov't action.

To put this in context, consider a non-resident buyer of a \$500,000 condo who now needs an additional \$75,000 to register their purchase at BC Land Titles. For a purchase of \$1,500,000, the amount is

\$225,000 and for a \$3,000,000 sale, the number is \$450,000 and so on. These sums are all cash, were totally unanticipated, and represent approx triple the amount currently held as deposits to secure the sales. Not surprisingly, many of those buyers have walked from their deal and fail to complete - who can blame them?

The extra \$\$ they must pay buys them nothing and it is likely that values will decline, not advance because of the policy, making them double losers. The result? A daisy chain of further failed transactions as the Sellers of these homes are left high and dry without the proceeds of sale that they need to make their own purchase. These secondary casualties are almost all local Canadian citizens.

Premier Clark's timing and action was puzzling. Perhaps she took her cue from the Republican Convention and Donald Trump's success in appealing to public fear and xenophobia. While stopping short of calling non-resident buyers "rapists and murderers" Clark has definitely erected a wall around the Lower Mainland and the clear message to non-resident buyers & future citizens is; "You Are Not Welcome Here".

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This includes not only the highly visible “Rich Asian Buyer” but also non resident students, University employees, Microsoft, Amazon, film and tech companies, and foreign owners of local businesses - i.e. - many who contribute to the fabric of our communities and the economy.

The decision by Clark to introduce housing policies modelled on those of Asian dictatorships was knee-jerk overkill - which they would have realized had they taken time to consult with industry. The Vancouver housing market was already showing clear signs of slowing into a Buyers’ Market by early Summer (see Bob’s article Market 2016 Summary and Fall Outlook).

Choosing to diminish the wealth and equity of Lower Mainland home and property owners in the face of perceived political vulnerability is just politics. The decision by Clark to do this retroactively, with all of the financial damage and grief caused to ordinary citizens and families however, was unnecessary and dishonorable.

Having said that, the Vancouver market is very strong with a solid underpinning of high equity ownership. It is also favoured by very strong economic fundamentals - a very limited (even diminishing) supply of land based residential property,

a strong economy and 1st class social infrastructure (jobs, education, health care etc.) in one of the most beautiful natural environments and climate in the world. This all contributes to a long term, steady and increasing demand from international and local home buyers and investors.

Our market was due for a correction, which is happening now (and which has happened in the past), and it will adjust and stabilize before continuing to grow.

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