

Recommendations for the 2022-23 New Brunswick budget



For the past two years, the government of New Brunswick has been reacting to constantly changing challenges, working on a day-to-day basis to get through the COVID pandemic. With the elimination of many regulations, now is the time to develop long-term integrated strategies and policies. Many issues facing the province now are the same ones that existed before the pandemic. Many are interrelated, and will require stakeholder consultations and detailed planning, concluding with government policy that is equitable, with less “red tape”, making New Brunswick the place where we want to be.

Who we are

1. New Brunswick REALTORS® are trusted advisors who help consumers make some of the largest purchases of their lives. Our members are in the business of supporting communities – not just selling homes. REALTORS® value quality schools and parks, safe neighbourhoods, a strong economy and efficient transportation choices.
2. The New Brunswick Real Estate Association represents over 1,200 agents, salespeople and affiliate members throughout the province. NBREA serves its members through a wide variety of educational programs, publications and special services. The association also provides all real estate licensing courses in the province and co-regulates the industry with the Financial and Consumer Services Commission.

Economic factors for 2022

3. The government of New Brunswick, in its pre-budget consultation document, notes that New Brunswick is one of only two provinces that are projecting a surplus for 2021–2022. In addition, net debt is projected to decline for the third year in a row.
4. In October 2021, Finance Minister Ernie Steeves announced that the projected budget deficit of \$244.8 million predicted for this fiscal year in March had turned into a surplus of \$37.7 million.
5. According to a report by the Conference Board of Canada, labour shortages in New Brunswick will continue to play a factor in preventing certain sectors such as health care and social assistance, to operate at full capacity. The report also says that labour shortages will affect the accommodation and food services sectors as well. Although there are still challenges due to the impact of the pandemic and labour shortages, the Conference Board forecasts real GDP in New Brunswick to grow by 5.3 per cent in 2021, 2.4 per cent in 2022, and 0.9 per cent in 2023.
6. TD reports that employment in New Brunswick is now above its pre-pandemic levels, with economic growth likely back in positive territory following a temporary setback in the third quarter. The bank's report says employment in New Brunswick's accommodation and food services sector is only 3.5% below where it stood prior to the pandemic, a better outcome compared to other provinces.

The Housing Market

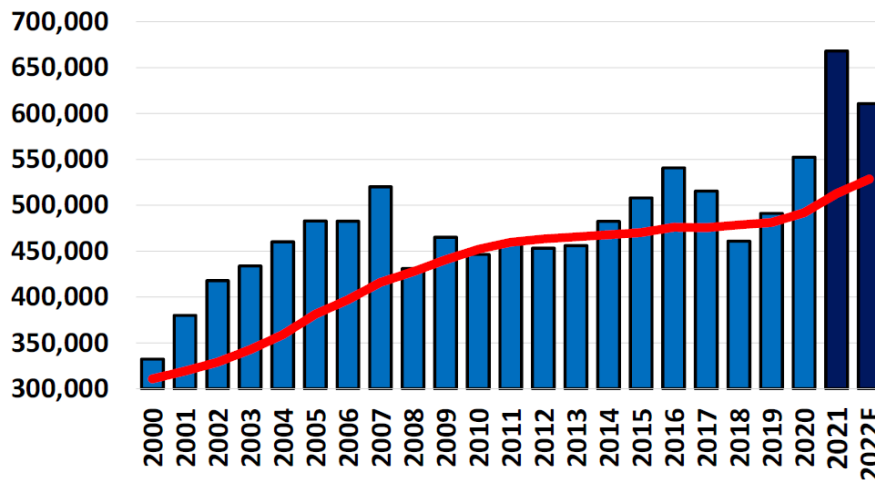
7. A TD report published December 15, 2021 says New Brunswick's housing markets have been the beneficiary of an improving demographic picture. TD projects average home prices will run at the fastest growth rate in the country for a second consecutive year in 2022. The bank's report says rising interest rates and eroding affordability will bring a modest pullback in the resale market going forward, but sales and homebuilding levels are anticipated to remain solidly above pre-pandemic levels.
8. In its summer 2021 provincial economic report, RBC said that housing construction "has been on a tear in New Brunswick, with no signs of slowing down". RBC forecast a 17 per cent increase in housing starts to 4,100 units in 2021, the highest number of housing starts in the province in a decade. RBC also projected a 3.8 per cent increase for residential housing starts in 2022, compared to the number of starts in 2021.
9. The Canadian Real Estate Association (CREA), in its national housing forecast for 2022, noted the number of months of inventory has only dipped below 2 months four times in history – in February and March of 2021, and then again in October and November the same year. It is not surprising that average prices nationally rose by more than 20% in 2021 compared to 2020. The CREA forecast says price growth is not expected to be as extreme in 2022, as it was in 2021.

The 2022 National Housing Market Forecast

10. With the end-of-month supply of homes for sale setting new record-lows nationally in every month in 2021, it would seem the ups and downs of sales had more to do with where and how many properties came up for sale. When they did, the demand was there to "scoop them up".
11. The housing market forecast from The Canadian Real Estate Association says that along with an unprecedented supply crunch, there are a few other factors that will play important roles in Canadian housing markets in 2022. Demand should be further turbocharged by the return of very strong or perhaps even all-time record levels of international immigration, depending on the evolution of the pandemic.
12. There will also be headwinds, chief among them higher interest rates. While the Bank of Canada has set the stage for a tightening cycle to begin as early as April of 2022, mortgage rates started a slight migration higher in the last quarter of 2021. Those are the rates borrowers are actually getting, but in Canada they must qualify for their mortgage loans at the stress test rate, currently set at 5.25%, which is somewhere in the range of 275-basis points above the typical discounted 5-year rate.
13. Other unknown factors are the promises made around housing issues in the recent federal election. Unfortunately, a major increase in new supply (the most needed but also most long-term of all of these interventions) is unlikely to make a major difference within the space of a year. On a national basis the unprecedented imbalance of housing supply and demand will continue, with the inventory nationally remaining close

National Residential Sales Activity

Historical, forecast and 10-year average



Source: Canadian Real Estate Association (CREA)

14. On a monthly and quarterly basis, national existing home sales are forecast to remain historically strong in 2022 while at the same time trending slowly back to more typical levels. Limited supply, higher prices and higher interest rates are expected to tap the brakes on activity in 2022 compared to 2021.
15. National home sales are forecast by CREA to fall by 8.6% to around 610,700 units in 2022 – still the second-best year on record. This easing trend is expected to play out across most of the country with buyers facing both supply and affordability constraints, while at the same time, the urgency to purchase a home base to ride out the pandemic continues to fade.
16. Still, with supply continuing to hit fresh lows every day, the national average home price is forecast to rise by a further 7.6% on an annual basis to \$739,500 in 2022.

The New Brunswick Housing Market in 2022

17. The number of homes sold through the MLS® System of real estate Boards in New Brunswick totaled 621 units in January 2022, which is the most current data available at the time of this writing. This was a moderate decrease of 6.5% from January 2021.
18. However, existing home sales were 14.8% above the five-year average and 38.3% above the 10-year average for the month of January.
19. In January 2022, home sales activity posted an increase in Northern and Valley Regions (39.4%) and recorded declines in Saint John (-12.8%), Greater Moncton (-14.6%), and Fredericton (-20.6%) on a year-over-year basis. Activity in January 2022 was still well above the five year trend in each region.
20. While the number of homes sold declined in January 2022, compared to January 2021, the average price of homes sold through the MLS® system in New Brunswick in January 2022 was \$261,587, a gain of 28.5% from January 2021.

21. The dollar value of all home sales in the province in January 2022 was \$162.4 million, an increase of 20.2% from the same month in 2021. This was also a new record for the month of January. It should be noted that because of the way the Land Transfer Tax is applied, these record sales values represented unprecedented transfer tax revenue for the government of New Brunswick.

22. In terms of number of homes on the market, the New Brunswick real estate market reflected national trends in January of 2022. The number of new listings in the province dropped 20.8% from January 2021. There were 609 new residential listings in January 2022. This was the lowest number of new listings added in the month of January in more than three decades.

23. Active residential listings numbered 1,443 units on the market at the end of January, a substantial reduction of 42% from the end of January 2021. Active listings haven't been this low in the month of January in more than two decades. Active listings in New Brunswick were 59.6% below the five-year average and 70.1% below the 10-year average for the month of January.

In January 2022, the low number of new listings kept it a sellers market in N.B.



There were 609 new residential listings added in January 2022, down 28% compared to the 769 new listings added in January 2021.



24. The Canadian Real Estate Association expects the number of residential real estate transactions to decline on an annual basis in 2022, compared to 2021. By comparison, the Association forecasts an increase in number of units sold in New Brunswick, year-over-year.

Sales activity forecast	2020	2020 Annual percentage change	2021 Forecast	2021 Annual percentage change	2022 Forecast	2022 Annual percentage change
Canada	552,416	12.5	668,026	20.9	610,695	-8.6
British Columbia	94,001	21.5	125,819	33.8	102,149	-18.8
Alberta	55,085	3.8	84,511	53.4	80,759	-4.4
Saskatchewan	14,084	24.6	17,552	24.6	17,065	-2.8
Manitoba	16,789	14.3	19,698	17.3	18,069	-8.3
Ontario	228,117	8.8	270,779	18.7	245,281	-9.4
Quebec	112,184	16.1	110,720	-1.3	109,056	-1.5
New Brunswick	10,645	13.6	13,087	22.9	13,840	5.8
Nova Scotia	13,989	13.6	15,854	13.3	14,963	-5.6
Prince Edward Island	2,110	9.6	2,376	12.6	2,338	-1.6
Newfoundland	4,680	14.7	6,763	44.5	6,383	-5.6

Source: Canadian Real Estate Association (CREA)

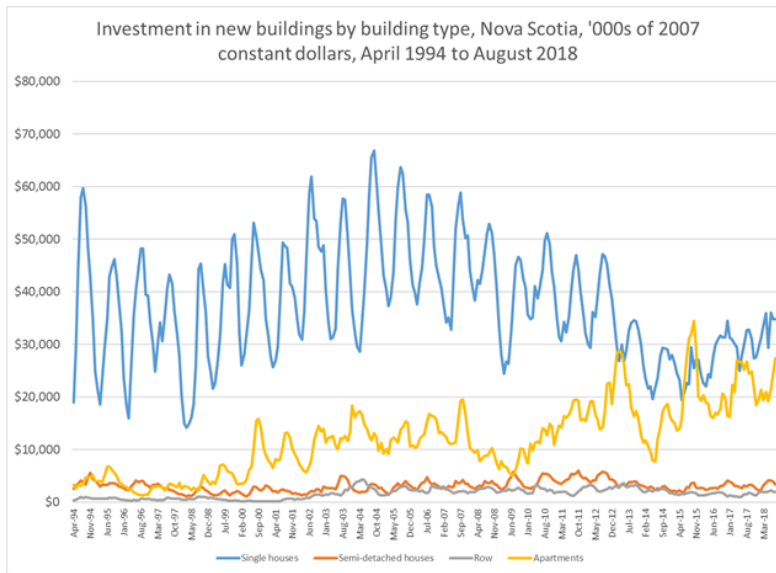
25. The Canadian Real Estate Association expects the increase in the average residential home price to moderate in 2022, compared to the rate of increase in 2020 and 2021. This same pricing trend is also expected for the residential real estate market in New Brunswick. The forecast is for an average price increase of 11.4% compared to prices in 2021, compared to the 25.1 percent reported in 2021 when compared to the average price in 2020. In other words, price increases will moderate.

Average price forecast	2020	2020 Annual percentage change	2021 Forecast	2021 Annual percentage change	2022 Forecast	2022 Annual percentage change
Canada	567,327	12.9	687,514	21.2	739,495	7.6
British Columbia	781,572	11.6	924,335	18.3	990,038	7.1
Alberta	392,441	1.4	428,593	9.2	448,884	4.7
Saskatchewan	281,975	2.5	301,679	7.0	318,115	5.4
Manitoba	304,117	4.4	333,783	9.8	353,417	5.9
Ontario	705,681	16.0	871,237	23.5	971,080	11.5
Quebec*	376,841	16.5	444,547	18.0	493,338	11.0
New Brunswick	197,398	10.5	247,002	25.1	275,190	11.4
Nova Scotia	291,486	13.8	361,993	24.2	402,706	11.2
Prince Edward Island	282,940	18.6	341,748	20.8	369,465	8.1
Newfoundland	248,834	3.1	273,727	10.0	286,341	4.6

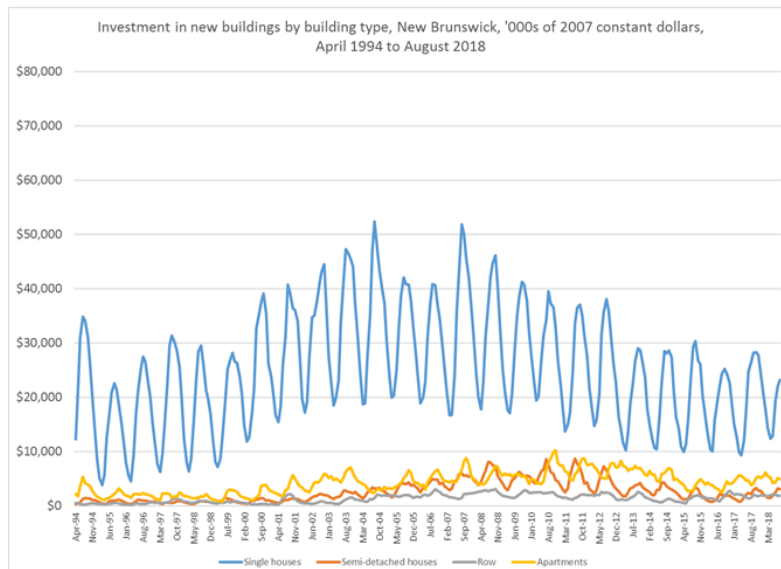
Source: Canadian Real Estate Association (CREA)

Factors Affecting Housing Supply and Affordability

26. More than 250,000 people in New Brunswick rent their home, which means through their rent they are paying the double property tax imposed on non-owner occupied residential buildings. Demand for rental housing nationally is outpacing ownership, driving rent prices higher and deepening Canada's housing affordability issues.
27. According to data from the 2018 Canadian Rental Housing Index Between 2011 and 2016, nearly 753,000 new households were formed in Canada. About 396,000 of those were rentals, which now account for 32 per cent of the country's homes. Over the same period, the percentage of home ownership fell from 68.9 per cent to 67.8 per cent, the first drop since 1971.
28. Statistics Canada data (1994-2018) shows that investment in apartments is displacing investment in single homes in Canada. In Nova Scotia, in that time period, investment in new single homes declined in value, but the value of investment in apartments, or multi-tenant units increased.



29. By comparison, in that same time period in New Brunswick, investment in new single-family homes declined, but there was no growth in corresponding new apartment investment, as there was in Nova Scotia.



30. An analysis of these statistics by economist Herb Emery, the Vaughan Chair in Regional Economics at the University of New Brunswick, shows that the “double tax” on rental units is discouraging investment in this housing type in New Brunswick. Had the two provinces followed the same investment trend as Nova Scotia, New Brunswick would have more than 6,000 additional rental units than it does today.

31. According to a report from Canada Mortgage and Housing Corporation, in October the apartment vacancy rate in New Brunswick dropped from 3.1 per cent in 2020 to 1.7 per cent in 2021. The report also says the average cost of a two-bedroom apartment in the province had risen to \$969 per month, representing a 15 per cent increase in the average 2 bedroom rent since 2020. However, the New Brunswick rent for a 2 bedroom apartment is \$198 below the Canadian average.

Conclusions

Property taxes are vital to day-to-day life in this province. They are a key source of revenue for the provincial government, and by extension, to every municipality throughout New Brunswick.

The New Brunswick Real Estate Association believes there must be a “budgeting emphasis” placed on developing the property tax system of the future, considering the important role it plays on both the overall revenue for the province, our potential for economic growth, and an attraction for young and immigrant families to move or stay in this province. To do that, the government should establish a task force with a mandate to recommend changes to the property tax system so it is fair, reasonable, and based on sound methodology.

Reasoned taxes fairly applied encourages new residents and new investment, while providing the tax revenue needed to make things work.

Since 2010, NBREA has been advocating for a modernization of the property tax system and municipal reform. The sheer magnitude of required change implied a phased-in approach, so the government could coordinate it with revenue adjustments for both municipalities and the provincial treasury. NBREA recognizes that these taxation adjustments cannot be done in a vacuum, and cannot be done for short-term gains. We recognize the financial challenges the government faces in developing solutions to property taxation issues.

NBREA first expressed concern about the provincial property tax system in 2010 by publishing a comprehensive review of property tax issues in New Brunswick, recommending the first priority be making the property tax system fair for all residents.

The Association defines “fairness” as meaning there is a statistical methodology for calculating assessment increases based on real market conditions. This means recognition in the system that prices can go down, or remain unchanged, and increases are not considered a “norm”. Fairness refers to property owners and not municipalities, as municipalities have access to alternative revenue sources; property owners do not.

Property value assessment was identified as being at the heart of the issue. As the primary driver of the property tax system in New Brunswick, many owners still believe there are problems with how property value assessments are calculated, with their accuracy and how they are presented.

Also, it is the property tax rate that should provide the equitable distribution of the property tax burden, and not the assessment. In other words, the assessment is used only to determine the value of the real property being taxed, while the tax rate is used to determine tax revenues or distribute the tax burden. Using assessment for any purpose other than determination of real market value of a property aggravates deficiencies in the system.

It is essential that Service New Brunswick have the resources to increase the frequency of actual property inspections. But there are other implications in the equitable application of the “real market value” concept that must also be addressed.

This includes acknowledgement of the possibility that real market value may decline, and the property assessment system in New Brunswick must be flexible and agile enough to reflect that reality. If Service New Brunswick has the resources to reflect this in the property assessment system, it will help restore property owner confidence in the system.

Recommendation One: Initiate a phase-out of “double taxation” on non-owner occupied residential properties.

- Recognizing the requirement for fiscal responsibility, NBREA recommends this be done using an annual reduction formula, as originally proposed in the 2012 provincial budget. The impact of the “double tax” are included in paragraphs 26 – 30 of this submission.
- The same tax issue exists for businesses and non-residential buildings. The provincial tax on non-residential (commercial and business) properties in the province should encourage business development; the current system can be a deterrent. As the C.D. Howe Institute pointed out in its annual analysis of business costs in 10 cities across Canada published in May of 2020, because of double taxation on commercial and business properties, Moncton has one of the highest business property tax burdens in Canada.

Recommendation Two: To stimulate a new supply of rental housing, provide for an additional cut in the "double tax" on construction of new multi-unit housing.

- This is to address the identified issue of the overall structural shortfall of rental accommodations in New Brunswick, especially those that would be classified in the "affordable" category. According to CMHC, housing is considered to be affordable when a household spends less than 30 per cent of pre-tax income on shelter.

Recommendation Three: Introduce fairness on how the Land Transfer Tax is applied.

- The current legislative requirement for the government to charge the transfer tax on EITHER the purchase price OR the assessed value – whichever is highest – to calculate the transfer tax, is UNFAIR. Government policy should be to apply the tax on the actual purchase price if the real property is being transferred as a result of a registered transaction.
- By using the actual sales price for the transfer tax calculation, the province's tax system can then reflect the realities of any price changes in the New Brunswick housing market.

Recommendation Four: The government should create a non-partisan task force to review all aspects of housing in the province, including property tax, and its relationship with overall government revenues.

- This Task Force should have a mandate to investigate housing deficiencies and unfair aspects of the current property tax system, and make recommendations on how they can be resolved. There have been numerous studies and reports done in the past fifty years, but the unsettling conclusion is that many issues dealt with in earlier studies are the same issues we are addressing today.
- Within the past year, two other provinces – British Columbia and Ontario - have taken on a major review of housing issues, including property assessment systems and property taxes. In British Columbia, the Expert Panel had five major recommendations, including the creation of a planning framework that proactively encourages housing; reforming fees on property development; expanding the supply of community and affordable housing; and improving coordination among and within all levels of government.
- The Ontario Housing Affordability Task Force published a set of 55 sweeping recommendations that, if implemented, would overhaul virtually every aspect of Ontario's housing system, from zoning and development charges to heritage designations and planning appeal rules. The report says Ontario needs to aim for 1.5 million new homes in 10 years; should put an end to exclusionary zoning that shuts multi-family housing out of single-family residential neighbourhoods; and recommends property taxes on purpose-built rental buildings, which can be up to 2.5 times higher, be aligned with houses and condos to encourage investors to build more rental apartments.
- A precedent for a provincial task force to deal with property issues has also been set with the task force created by New Brunswick to provide input on the impact COVID-19 lockdowns or other restrictions had on more than 1,000 business property assessments.
- By establishing a task force, the government is making a commitment to seek ways to resolve major housing issues, and make the New Brunswick property tax system fair and responsive to the demographic and governance issues we face today. We recommend the Task Force include stakeholder representation and expertise to ensure recommendations are feasible, reasonable and effective.
- The province is in dire need of a comprehensive review of property assessment and taxation to better reflect modern realities, best practices and fairness. Our tax system and economic growth are intertwined and tinkering with New Brunswick's tax laws and regulations through the decades has led to a misalignment between the two.
- The Task Force work should include a review of the property assessment process and New Brunswick's Assessment Act, which is more than 50 years old, to ensure the province has a fair property tax system that helps – not hinders – economic activity and growth.

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