Will the 3% Empty-Home Tax Cause a Housing Price Crash?

Description

The Canadian housing market has long been a hot topic for investors and analysts since it began booming after 2009. It is no secret that the housing prices throughout major metropolitan areas in the country are reaching alarming levels. The government has had to step in to make changes that could control the unreasonable rise in housing prices.

That is where the infamous Vancouver Empty-Homes Tax (EHT) came in as one of the measures. The Vancouver EHT will change in 2021 due to the results it has produced since its inception, and that could be alarming for Canadian real estate investors.

The infamous Vancouver EHT

Vancouver residents and real estate investors did not appreciate that the government was charging a penalty on underused homes. The 1% tax was placed to help encourage more efficient use of real estate. Vancouver's low property tax rate made it convenient for investors to carry vacant properties for lengthy periods until the introduction of EHT.

This tax reduces the cost effectiveness of vacant homes, forcing homeowners to rethink their decision to carry empty homes.

EHT hikes to 3% next year

The Vancouver EHT might not be popular among Vancouver homeowners. However, the tax undoubtedly made a big impact. 2017 was the first year of EHT, and it saw 2,538 homes vacant without exception. The number fell down to 1,989 in 2018 after the tax was in place for a year. The number fell further in 2019 to 1,893.

The tax revenue generated through EHT is being used by Vancouver to fund affordable housing. The city collected $33 million from EHT in 2017. As the use of properties became more efficient due to the tax, the EHT revenue fell to $23.3 million in 2018. The figure rose to $27.9 million in 2019 despite fewer vacancies. It implies that only the more expensive homes were being left vacant.

Vancouver is planning to build on the EHT success by tripling down on the tax. As of 2021, the empty home tax will increase to 3%.

The increase in tax, shuttering of local shops, and an increase in people working from home has led to the decreasing importance of living in expensive urban hubs. These factors might combine with the already astronomical housing prices to catalyze a steep decline in the housing market. While the 3% EHT might not be the only factor, it could be one of the main propagators of a housing price pullback that everybody has been anticipating for years.

A safe REIT to consider

A decrease in housing prices might create opportunities for investors to buy houses at more affordable rates. However, it will still be a significant upfront investment to consider, and there is no telling how much housing prices will go down before they climb up.

Fortunately, there are other ways to take advantage of the real estate sector in Canada. Ideally, you can become a lazy landlord by investing in real estate investment trusts (REITs) shares like **Choice Properties REIT** (TSX:CHP.UN).

CHP is a large Canadian REIT that primarily focuses on retail properties. Investors are not too keen on retail-heavy REITs due to the uncertainty in the market. However, Choice Properties could be a better choice than most of its peers due to its tenant base. CHP has a strategic partnership with **Loblaw**.

The grocery giant is one of its tenant anchors. The business is a household name, providing its customers an essential service. The chain remained open throughout the year, generating consistent revenue. It can effectively allow Choice Properties to earn a significant income, even in the wake of a second market crash and any lockdowns due to the second wave of infections.

Foolish takeaway

A housing market crash could be swift if it comes before the end of 2020. I cannot say for certain if it will happen. However, you need to make preparations in case of a decline. Invest in a REIT like CHP to take advantage of its consistent earnings. The REIT is trading for $13.25 per share at writing and is paying its shareholders at a juicy 5.56% dividend yield. I think it is an excellent stock to consider.

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