



The Vacant-Home Tax Will Rise by 300% in 2021: Is a Housing Crash Inevitable?

Description

The housing market continues to show remarkable resilience, despite all the predictions of a significant decline. Analysts touting a housing [market crash](#) for years were convinced that the onset of COVID-19 would be the final piece in the puzzle that would send it tumbling.

For a little while, the reduced housing activity made it look like there is a possibility of the crash taking place. Of course, we are well past that point, and there is a chance that we might not see a housing crash.

One factor could lead to a housing price decline in Vancouver and possibly lay the groundwork for other markets in the Canadian residential real estate segment.

Vacant-home tax

Vancouver has long been one of the overvalued housing markets in the country. Prices have steadily increased over the years, but the government has slowed the market to keep it from becoming a bubble. One of the most effective measures it took was introducing the Vancouver Empty-Homes Tax (EHT) in 2017.

Vancouver residents and real estate investors did not receive the EHT well. This tax entailed a tax penalty of 1% of the home's value for underused homes. The idea was to discourage people from buying up homes and not using them, effectively trying to make more efficient use of real estate.

Vancouver's low property tax rates made it possible for investors to hold on to vacant properties for years without worry, until EHT came into effect. EHT reduces the cost effectiveness of keeping vacant homes and forces homeowners to reprioritize how they use their investment.

Plans to triple the tax

The tax proved to be largely successful. The government collected EHT on 2,538 vacant homes

without exceptions in the first year of EHT. The number of vacant homes fell to 1,989 in 2018, and it fell further in 2019 to reach 1,893.

The government is using tax revenue generated by EHT to fund affordable housing in Vancouver. Vancouver collected \$33 million in 2017, \$23.3 million in 2018, and \$27.9 million in 2019 through EHT. The tax figure rose in 2019, despite a lower number of vacant homes. This was a sign that only the more expensive homes were vacant in the city.

Vancouver has every intention of building on the success of EHT. The city plans to increase the EHT three-fold in 2021.

Can that cause a housing crash?

The 3% EHT will likely force the more stubborn homeowners holding on to vacant properties in Vancouver into action. Having to pay three times the tax on their expensive homes will make it more impractical for them to leave their properties vacant. This could result in investors selling their vacant properties.

There is a slight possibility that this could lead to a decline in Vancouver's housing market. As the work-from-home culture becomes more popular during the pandemic, people might not feel too inclined to live in homes within major urban areas. With a decline in demand, homeowners might be willing to sell their properties for lower prices.

Whether it causes a housing crash is still speculative, but it is possible.

If you are not too keen on the prospects of the housing market but still want to get exposure to the real estate sector, real estate investment trusts (REITs) like **RioCan REIT** ([TSX:REI.UN](https://www.scribd.com/document/544444444/TSX:REI.UN)) could be a better investment decision. REITs give you exposure to the real estate market without the massive upfront investments or complications that come with owning any real estate.

RioCan is a company that specializes in retail properties that it rents out to major retailers in the country. With people less likely to visit malls and other crowded places, RioCan's valuation has declined since the onset of COVID-19. However, positive news coming on the vaccine front could change the picture and turn the stock into a more viable bet.

Foolish takeaway

Investing in REITs provides investors with relatively safer and more liquid exposure to the real estate market's movements. If you are bearish about the housing market due to the [tax update in 2021](#) but are still interested in real estate, I think a REIT like RioCan could offer you a better way to gain exposure.

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1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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