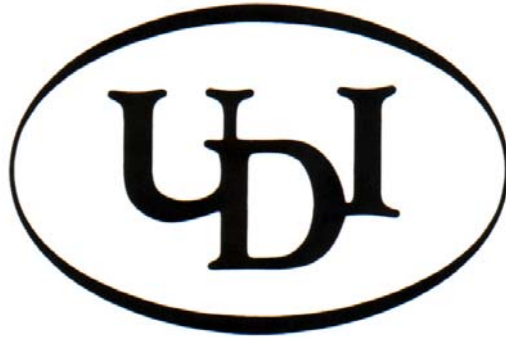


Urban Development Institute Pacific Region



*Pre-Budget Statement to the Select Standing
Committee on Finance & Government Services*

October 2003

Presented by:

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Introduction

The Urban Development Institute is a non-profit association with national and international affiliations representing the development industry. The Pacific Region has been active since 1972 with its head office located in Vancouver and chapters operating in Victoria and Kelowna.

The Urban Development Institute acts on behalf of the largest cross-section of real estate developers and related professionals in British Columbia. Members of the Urban Development Institute include residential & commercial developers, property managers, financial lenders, lawyers, engineers, planners, architects, appraisers, real estate professionals, local governments and government agencies.

With close to 400 corporate members representing thousands of individuals involved in all facets of land development and planning, we are an industry that contributes an estimated \$16 billion in economic activity and 200,000 jobs to the BC economy every year.

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The goals of the Institute are to facilitate communication between the development industry, various levels of government, and the public, as well as improve housing and job opportunities for all British Columbians.

As the voice of the development industry, we are pleased to once again present a report to the Standing Committee on Finance on the current status of our industry within the overall context of the provincial economy, and provide some insight on the concerns we have for the future.

State of the Development Industry 2003

As we close the year of 2003, the development industry in British Columbia is looking to the future with renewed optimism and hope. Winning the 2010 Winter Olympics has imbued the province with a new and powerful sense of confidence and self-awareness. Our industry has also been encouraged by the efforts of the BC Government to reinvigorate the BC economy.

With the amount of unforeseen economic challenges the province has

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encountered in the past year, we are happy to hear that the plan to balance the budget by the beginning of 2004/2005 is still on track. It is truly a testament to the strength of British Columbia's economic fortunes when the huge costs associated with these unanticipated financial obligations combined with slower than expected economic growth have been offset by positive returns from energy revenues and debt interest savings.

The ravages of SARS, mad cow disease, the softwood lumber trade dispute as well as a particularly vicious forest fire season, however, have not spared growth projections for the province. Private sector forecasts have been reduced by 0.9%, averaging 1.7% real GDP growth for 2003 and further downgraded in 2004 by 0.5% to 3.4%. The Ministry of Finance has been even more cautious, adjusting projections to 1.5% growth in 2003 and 2.6% growth in 2004.¹

In spite of these obstacles, the development industry is pleased to report that we continue to be a key component of the province's economic engine. Housing starts are a strong economic indicator for

¹ BC Ministry of Finance, "First Quarterly Report on the Economy, Fiscal Situation, and Outlook – Fiscal Year 2003/04," available at http://www.fin.gov.bc.ca/qrt-rpt/qr03/Q1_03.pdf

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the British Columbia economy, and we expect that positive gains in housing demand will continue to be an essential driver towards this province's economic recovery and subsequent growth towards the Olympics.

Particularly in the Lower Mainland, construction is currently in high gear. Residential construction provided the highest contribution of any sector to real GDP growth in 2002, accounting for 0.9%, or 50% of the province's 1.8% total growth.² With the lowered provincial economic growth projections for both 2003 and 2004, we expect this trend to continue by comprising a higher percentage of total growth following the end of this coming fiscal year.

Housing starts in the province are up 17.4% in the first six months of 2003 when compared to the same time frame from the year before.³ In Greater Vancouver, housing starts in July jumped 46% from 2002.⁴ Record-low interest rates and increased consumer confidence have

² Business Council of British Columbia, "BC Economic Snapshot May, 2003, v2 n2 - Export and Investment Sectors Key to Stronger BC Growth," available at <http://www.bcbs.com/publications/archive.asp>

³ BC Ministry of Finance, *op.cit.*

⁴ Wying Chow, "Low interest rates fuel boom in Lower Mainland housing," Vancouver Sun, 12 August, 2003: A1.

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also pushed housing sales in Greater Vancouver to an amazing 50% increase in July, and a 33.3% increase in August when compared with the same monthly totals from 2002.⁵ Overall, the British Columbia construction industry expects over 11% growth in 2003-04.⁶

These figures have translated into significant contributions to the provincial economy. Property tax revenues have surpassed previous forecasts, with a \$15 million jump in 2003/04, and successive \$20 million and \$49 million increases over the next two years due to a higher property tax base in 2002/03 and an inflationary adjustment in 2005/06.⁷

As encouraging as these numbers are, however, they are a clear reminder of how far we have to go in order to once again achieve the level of housing starts from only a decade ago. Whereas 1993 saw 42,807 housing starts in BC⁸, current forecasts estimate that 2003 will complete the year at 26,200, with 2004 expected to produce 28,800.⁹

⁵ Wyng Chow, "Olympics to keep real estate market hot," *Vancouver Sun*, 12 September, 2003: G3.

⁶ Canadian Construction Association, "Five Year Construction Forecast, November 2002," available at <http://www.cca-acc.com/factsheet/factsheet.html>

⁷ BC Ministry of Finance, *op.cit.*

⁸ Canada Housing & Mortgage Corporation, "Canadian Housing Statistics, 1993," Table 14.

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Non-residential building permits were down 2.5% for the first six months of 2003 when compared to the year previous, due in part to the pace of business investment into the province.¹⁰ In 2002, investment in non-residential construction fell 21%, accounting for most of the drop in industry capital spending, although investment in machinery and equipment also fell by 5%.¹¹ With an expected 4.7% jolt in real business investment in 2003, however, and predicted annual increases of 5% from 2004-2007, non-residential building permits are expected to dramatically increase to keep pace with this growth.¹²

The Challenges of the Industry

While we as an industry are pleased with the efforts of the government to create flexibility surrounding taxes, regulation and expediency of service, there is room for improvement in all three areas if we are to assist in rebuilding the economy and create more market affordable housing. Housing starts in a community are an indication of growth (jobs, higher incomes, increased tax revenues) which benefits the

⁹ Credit Union Central of British Columbia, "Weekly Economic Briefing – October 10, 2003, v9 n40," available at <http://economics.cucbc.com/economics/briefing/briefingarchive.htm>

¹⁰ BC Ministry of Finance, op.cit.

¹¹ Business Council of British Columbia, op.cit.

¹² BC Ministry of Finance, op.cit.

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entire community. Urban development is simultaneously a prerequisite for and a by-product of economic growth, directly improving the standard and quality of living for all.

Private investment within the development industry is as interested in seeing a reasonable rate of return as any other industry, and yet the total burden of taxes, fees, charges, levies and transaction costs for those involved in the development process makes the prospects of conducting a profitable business extremely difficult. By and large, our industry faces greater obstacles in red tape and government fees and charges than other sectors functioning within the British Columbian economic climate, which at the moment is still recovering from a decade of neglect and misplaced policy direction.

In an article entitled "*A home costs \$197,000. Politicians add \$84,000*" from June of last year, the Vancouver Sun accurately detailed the myriad of fees faced by development from all levels of government.¹³ It was determined that the combined costs from all three levels of government can account for up to 30% of the final price

¹³ Fazil Mihlar, "A home costs \$197,000. Politicians add \$84,000," Vancouver Sun, 17 June, 2002: A8.

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of a home in British Columbia. These additional fees are most often structured into the price, which when amortized over the life of a fixed mortgage, accumulate additional interest costs for purchasers of a new home.

These concerns that we raise today do in no way indicate that the development industry is unwilling to pay its fair share towards infrastructure and regulatory costs associated with the building of communities. There is no question that new development must contribute equitably, as the prevailing attitude must be that all of us here today are in this together; desiring the same goal of building this province in as sustainable an approach as possible (both in terms of the health of communities and their viability for economic potential).

In an interview with the Vancouver Sun last year, Premier Campbell spoke about how the next step to making British Columbia more attractive to a skilled workforce is tackling the problem of the high cost of housing. In commenting on the course of action following reductions in personal income taxes, the Premier stated that "we go

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from taxes being the biggest issue to disposable income being the biggest issue and housing consumes a lot of disposable income.”¹⁴

Misconceptions occur often about what exactly affordable housing refers to, with the most common being the idea that affordable housing falls strictly in the realm of social/non-profit or public housing. The reality is that according to the CMHC, affordability is calculated as a ratio of housing expenditures to total household income, and any household paying more than 30% of its pre-tax income on housing is considered in need.¹⁵

This is an astonishing benchmark, particularly in the province of British Columbia. A 2002 RBC Financial Group report on housing affordability determined that British Columbians are paying 39.3% of their gross household income on housing. On average, this is a 35% jump over any other province in the country.

¹⁴ Craig McInnes, “Housing in BC next target: Campbell,” Vancouver Sun, 5 June, 2002.

¹⁵ Canada Mortgage & Housing Corporation, “Frequently Asked Questions – Affordable Housing,” available at http://www.cmhc-schl.gc.ca/en/FAQs/faqs_003.cfm



**Share of Pre-Tax Household Income Spent On Housing
(By Province)**

BC – 39.3%
Alberta – 28.3%
Saskatchewan – 29.3%
Manitoba – 30.5%
Ontario – 30.5%
Quebec – 29.6%
Atlantic Region – 26.3% ¹⁶

These numbers become much more staggering when placed in the context of comparing Canada's three largest urban centres. In Vancouver, the percentage of household income spent on shelter rose to an unbelievable 47.7% in the final quarter of 2002, a 6.7% increase from the year before. This is 22% higher than the costs incurred in Toronto, and 55% higher than those in Montreal.

**Share of Pre-Tax Household Income Spent On Housing
(By City)**

Q4 2001 Vancouver 44.7%
Toronto 37.2%
Montreal 29.8%
Q4 2002 Vancouver 47.7%
Toronto 39.1%
Montreal 30.7% ¹⁷

¹⁶ RBC Financial Group, "Housing Affordability Index 2002."



In an international marketplace where communities are competing globally for employers, residents and investment, a lack of affordable housing has a direct impact on the economic health of a city and its ability to attract business and a skilled workforce.

Maximizing Our Potential - Recommendations

1) Reducing Housing Costs

a) Govern with a "Housing First" Philosophy

The availability of decent, affordable market housing is the basis for family and community, and fundamental to economic and social opportunity. Affordable market housing provides the platform that enables communities to maintain socio-economically diverse populations, while creating ongoing job opportunities and tax revenue generation — all key elements in a solid and balanced economy. Every company thinking about its choice of location wants to know that its employees can find a decent, affordable place to live relatively close to their job.

¹⁷ Business Council of BC, "Regional Economic Outlook and Key Trends," available at <http://www.bcbc.com/download.asp?file=REF04092003&type=pdf>

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Housing in its entirety must be considered as a continuum, such that an increase in demand without an equal or greater response in supply will further drive up housing prices. It has been demonstrated that increases in the supply of housing, regardless of the price, create greater housing options across the price spectrum, as attraction to new developments free up vacancies in already occupied housing.

Social housing stock, which represents those units built and/or operated by government, public agencies, non-profit organizations and/or co-operatives, accounts for 700,000 dwelling units out of over 10 million across Canada. Market rental housing, by contrast, accounts for almost 4 million units, constituting nearly 40% of the total stock.¹⁸ These statistics are extremely important in demonstrating the significant role private development already plays in providing affordable market housing options across the country.

Clearly the development industry has been and will continue to be a key partner in creating housing for British Columbians and in providing a catalyst for economic growth in this province.

¹⁸ Steve Pomeroy, "Toward a Comprehensive Affordable Housing Strategy for Canada," available at <http://www.caledoninst.org/PDF/894598946.pdf>

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Our industry sees one way to counteract the obstacles that currently plague our activities in British Columbia, and much of the sentiment behind our optimism for the future is contained in the BC Housing Service Plan for 2003/04-2005/06. One paragraph in particular exemplifies our future goals quite effectively:

“The importance of long-established partnerships should not be overlooked. It is through the work of community groups, local health authorities, other public agencies, municipalities and the private sector that we are able to create healthy, active and inclusive communities.”¹⁹

As such, the government must encourage and facilitate development to support the anticipated population influx that will choose to call this province home in the coming decade. This can be accomplished by:

- Adopting a “housing first” policy platform so that before new regulations and/or costs are passed on to housing construction from any government ministry, there must be a cost/benefit analysis done to fully understand the impact on housing affordability.
- Consulting with the development industry directly to find out exactly what the cost barriers are to building more market affordable housing.

¹⁹ BC Housing, “Service Plan 2003/04 – 2005/06,” available at http://www.bchousing.ca/files/Corporate_Documents/BCH_Service_Plan_2003-06.pdf

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b) Eliminate the Property Transfer Tax on New Housing

The Property Transfer Tax (PTT) continues to serve as a barrier to new home purchases. This surtax on new housing is a prohibitive cost for first time homebuyers, while at the same time increasing the cost of real estate for those businesses that need to expand their operations within British Columbia, where industrial land is already at a premium price.

The PTT applies to all transferees who register transfers of property with the Land Title Office. The tax rate is 1% on the first \$200,000 of the property's fair market value, and 2% on the remaining fair market value.

In 2000, the British Columbia Real Estate Association (BCREA) estimated that approximately 10,300 families and unattached individual were effectively priced out of purchasing residential property because of the PTT. In addition, the BCREA concluded that elimination of the tax would mean:

- 6,400 additional Multiple Listing Service® (MLS®) residential sales

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- 2,600 additional housing starts
- 20,640 person years of employment in the sales and construction industries
- a \$1.274 million increase in Gross Domestic Product (GDP)
- a \$357 million increase in government revenues²⁰

The development industry is well aware of the number of amendments that were made to the First Time Home Buyers' (FTHB) Program in the 2003 Budget. These changes did attempt to improve the fairness of the FTHB program by increasing the amount of purchasers that are eligible to qualify for and claim exemption.

These amendments, however, did not go far enough.

With the already substantial list of fees that are added to the price of a home in the form of development cost charges, lot levies, and development and building fees, the Property Transfer Tax should be eliminated altogether.

c) Immediately Eliminate Restrictions on Purchasers' Deposit Monies

Despite a strong residential market and the surging demand for new

²⁰ British Columbia Real Estate Association, "Property Transfer Tax – Presentation to the Members of the Legislative Assembly," available at http://www.bcrea.bc.ca/govt/2000-04_PTT.pdf

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housing across the province, the development industry is struggling to contain the rapidly spiraling costs of land, labour and materials. While these factors are out of the control of the provincial government, we urgently appeal for two small legislative amendments that will help curtail the escalating price of housing by way of a reduction in financing costs.

The current regulations force deposit money to be held in trust and does not permit these funds to be used to help offset the financing costs of new residential development. Irrespective of the timeline for updating the Real Estate Act, we strongly urge that during the Fall 2003 legislative session, the government amend:

- Section 61 of the *Real Estate Act*

and

- Part 7 of the *Insurance Act*

in order to enable developers to make use of deposit monies that would be protected by insurance.

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Due to the importance of these amendments in reducing the construction financing costs related to housing, it is imperative that they proceed in the fall session rather than being delayed until government is ready to amend the overall *Real Estate Act*.

The timeliness of these amendments is critical to providing lower housing costs for purchasers, to facilitating a thriving and affordable housing market and to the government's overarching goal of a strong and vibrant provincial economy.

d) Maintain the Schedule for Other Proposals Contained in the *Real Estate Act Review*

We want to congratulate the government on the discussion paper published in March, 2003 by the Ministry of Finance entitled *Real Estate Act Review*. The proposals for change contained in this document are a huge step in the right direction, and extremely encouraging for our industry as it is premised on many of the concerns that we brought forth to this committee last year.

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Simply stated, the discussion paper realizes that to remain current and relevant to the real estate market within British Columbia, the Act must be updated from the most recent revisions it received in 1958.

The principles behind the document are well-placed and fully incorporate the view that “the primary objective of regulation must be to maintain and enhance consumer confidence in the province’s real estate sector.” These principles are premised on:

- **Least Cost** - Regulatory costs should be minimized whenever and wherever possible.
- **Competitive Market** – The regulatory regime of the real estate industry should encourage competition amongst participants while removing unnecessary barriers to entry.
- **Flexible Frameworks** – Regulatory requirements and legislative frameworks should be flexible such that market participants and regulators can adjust and adapt to new technologies, ever-changing market conditions and innovation in development patterns.
- **Accountability** – Accountability must be exercised on both sides, both by private interests operating within regulatory requirements and regulators maintaining the spirit and intentions of those regulations imposed.

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We look forward to government undertaking a complete overhaul of Part 2 of the *Real Estate Act*. As it stands now, the weight of risk and the burden of regulatory limitations fall largely on the shoulders of developers. The current proposals for an updated piece of legislation entail a much more balanced approach, giving consumers and developers more flexibility and security in their business transactions.

The new piece of legislation will bring new levels of accountability, consumer confidence, development mobility and regulatory flexibility. The development industry is pleased to see that legislation to implement a new Act will be introduced by the spring of 2004.

2) Cutting Fees, Regulation and Delays to Maximize Economic Benefits

a) Continue to Review & Reduce Red Tape

The government must continue efforts to provide a hospitable economic climate to attract business and investment back to the province. This entails implementing approval processes that are rational, expeditious and cost effective, and taxation and regulatory regimes that are fair and equitable.

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The BC Government has met more than 50% of its initial targets for cutting regulatory requirements. The development industry is particularly pleased to see that the largest reduction has come from the Ministry of Community, Aboriginal and Women's Services, where to date, 12,790 regulations have been eliminated.²¹

The Urban Development Institute has made several submissions on particular actions that can be taken with regards to the development industry, and we continue to work closely with government to further lessen the regulatory burden on business within British Columbia.

b) Establish an All-inclusive Provincial "One-Stop Shop" to Improve Service Delivery

The government must move more quickly to reduce delays in the provincial approval process by taking steps to provide a more inclusive and efficient set of services. These should include:

- Establishing a "Housing and Construction Secretariat" within the Ministry of Community, Aboriginal & Women's Services that will work as an advocate for housing within government to ensure that the various pieces of legislation, as well as policies and fees across different

²¹ Minister of State for Deregulation, "Quarterly Progress Report – August, 2003," available at http://www.deregulation.gov.bc.ca/reports/August03/DEREG_Aug03Fin.pdf

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ministries does not have a negative impact on market affordable housing.

- Encouraging municipalities to participate in establishing a province-wide system of approval based on the Certified Profession (CP) model. The CP process reduces liability issues for local governments and reduces costs for the development industry, both of which ultimately benefit the homeowner.
- Working closely with municipalities to develop greater consistency among local governments with respect to the building approval process and the development of building codes and standards.
- Investing in new technologies and consulting directly with municipalities to streamline the business license process into a universally accepted licensing system applicable across the province.

c) Continue to Incorporate More Balance into Environmental Legislation

There are several pieces of environmental legislation that have been introduced in the past decade which have a direct impact on the development industry, namely, the *Waste Management Act* and the *Fish Protection Act*.

While the development community supports the principles of sustainability, it is important that all aspects of environmental,

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economic and social considerations be incorporated into policy development and subsequent regulation and legislation.

In the case of the *Waste Management Act*, the problem was that the previous legislative regime entailed huge delays, heavy fees, extremely involved and costly negotiations over contaminated soil relocation agreements, and a maze of rules and principles governing the assignment of liability.

The introduction of Bill 57, the government's new *Environmental Management Act* on May 13, 2003 attempted to correct many of these obstacles. The new legislation takes a more pragmatic approach to environmental protection, keying in on the province's highest risk contaminated sites, incorporating private sector environmental consultation into the process, and reducing the tangled web of regulation that previously existed.

Similarly, the Streamside Protection Regulations drafted to accompany the *Fish Protection Act* have merit in the protection of the fish habitats, but the legislation fails to provide a clear jurisdictional direction among

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the various levels of government involved in the development approvals process. They also didn't address the matter of fair compensation for those landowners who were unduly affected.

The Urban Development Institute is currently participating in the Ministry of Water, Land and Air Protection's task force reviewing the regulation. Based on these two case studies, we encourage the government to:

- Move quickly to more fully implement the use external qualified professionals ("QPs") to establish flexible, results-based standards, audits and enforcement and institute more clearly defined responsibilities and accountabilities. We applaud the Ministry of Water, Land and Air Protection for already moving in the direction of a smaller model of government that shares responsibility for achieving environmental outcomes with a range of public and private partners.
- Ensure that all environmental legislation corresponds with the fundamental principles of sustainable development and balanced growth.



3) Encourage Other Levels of Government To Reduce Red Tape and Charges

The provincial government is by no means the sole cause of the fees, taxes, and waiting times that the development industry encounters. Wading through the rules and regulations from all three levels of government can at the best of times be a frustrating and stifling.

The Government of British Columbia has the ability to act as an intergovernmental advocate towards fuelling economic recovery in the province and providing for more market affordable housing. Some areas of concern in which assistance would be helpful include:

- Working with municipal governments to encourage and implement greater consistency with fees, approval process, permit licensing and professional certification within the new era of the Community Charter.
- Assisting municipalities to find alternative financing mechanisms other than development cost charges.
- Advocating for the federal government to eliminate, or lower the GST on the costs of new qualified rental construction or renovations.
- Pushing for an amendment to federal income tax legislation that would allow investors to roll-over capital gains and recaptured depreciation on the proceeds from the sale of qualified residential rental property.

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- Encouraging the Federal Government to implement a plan in British Columbia similar to the Greater Toronto Area's (GTA's) Construction Recruitment of External Worker Services program, which allowed temporary entry of hundreds of foreign skilled trades people into the country to counter our industry's massive labour shortages.

4) Finally, and Once Again, Stay the Course

In our 2002 presentation to this committee, the Urban Development Institute stated that *"the government's agenda of reducing taxes, fiscal reform, deregulation, streamlined bureaucracy, more emphasis on public private partnerships, and a new customer service attitude are certain to create long-term economic benefits."* One year later, we continue to see the tangible benefits to our industry from this approach.

Our industry and the patterns of development are affected by factors such as consumer confidence and optimism, affordability determined by indicators such as interest rates and wages, the economy, population growth and government policies. Based on these criteria, this province is well poised to usher in a period of sustained and substantial growth:

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- Consumer confidence is fueled by a positive feeling about your chances of getting or keeping a job, which in turn fuels retail spending. In the January to June period of 2003, employment was up 2.9 per cent over the same period last year, adding 56,300 jobs.²²
- Retail sales increased 4% in the first quarter of 2003, limited from being larger only due to the burden of higher gas prices on household budgets.²³
- The collective spirits of British Columbia's population has never been so optimistic in anticipation of playing host to the globe during the 2010 Winter Olympics. Not since Expo 86 have communities from across the province gained such a collective appreciation of not only what it means to be a British Columbian, but also what we have to offer the world.
- The Bank of Canada cut interest rates 25 basis points to 2.75 per cent in early September.²⁴
- Wages increased 3.9 per cent in the first six months of 2003 over the same period of 2002.²⁵
- Even with revisions because of costs associated with the forest fires and the BSE outbreak, the British Columbia economy is still expected to grow 1.5 per cent in 2003 and 2.6 per cent in 2004.²⁶
- The population of Vancouver is expected to increase by 457,000 within 10 years, and Greater Vancouver will need about 218,000 more

²² BC Ministry of Finance, op.cit.

²³ Business Council of British Columbia, "BC Economic Snapshot May, 2003..."

²⁴ BC Ministry of Finance, op.cit.

²⁵ Ibid.

²⁶ Ibid.

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dwellings to accommodate this growth. Communities outside of the Lower Mainland like Pemberton and Squamish are already experiencing huge surges in international inquiries regarding investment and possible residency.²⁷

- Generally, all of these figures will be amplified annually to various extents until the 2010 Olympics Games arrive in Vancouver.

We are pleased to see that the government is tackling the problems of red tape and regulation which bog down economic development within the province. We are an industry that truly relies on the confidence of not only those residing in the province, but also those wishing to invest and settle in British Columbia.

Conclusion

The development industry wants to be considered as partners in community building. Development, however, must work within the parameters of law and regulation laid down by all three levels of government. In other words, we can only play with the hand that we are dealt.

²⁷ Wyng Chow, "Olympics to keep..."

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We are self sufficient, and ask nothing in regards to financial subsidization in any form. Our purpose for being here today is to work with the government to create an environment where regulation, taxation and service delivery fosters a dynamic economic climate that thrives on the principles of fairness, cooperation and innovation.

We thank you for this opportunity to present our comments here today, and look forward to a future where our industry is truly able to reach its full potential.

Respectfully submitted,

Maureen B. Enser
Executive Director
URBAN DEVELOPMENT INSTITUTE