BRAD'S RESPONSE

Recently, the Globe and Mail printed an article written by Josh Gordon, who is an assistant professor at Simon Fraser University School of Public Policy. The subject matter was in reference to the new 15% land transfer tax for foreign buyers in Vancouver. I have gone on record on several occasions about this tax being a terrible idea. It is going to be a construction job killer and a possibly an instigator of a national recession.

I have reprinted Mr. Gordon's articles with my comments below each section of the article.

REAL ESTATE

Toronto, don't let Vancouver's crisis become yours

JOSH GORDON
Assistant professor at the Simon Fraser University School of Public Policy

Toronto-based commentators have been eager to weigh in on the recent foreign-home-buyer tax in Vancouver. Unfortunately, many of them have been confused about the issue, perhaps due to the novelty of the debate there.

The issue deserves better consideration in Toronto. There is ample evidence of foreign capital's influence in Canada's largest city.

Not getting it right with policy on this issue could leave it in Vancouver's unenviable position, where only a substantial price correction will get the city back to affordability, leaving many first-time home buyers underwater on their mortgages.

So it should be helpful to alert Torontonians to a host of bad arguments they will hear about why they shouldn't address the influx of foreign capital in the real estate market.

Concern about foreign capital is xenophobic or racist: Ninety per cent of Vancouverites support the recent foreign-buyer tax. Unless you think 90 per cent of Vancouverites are xenophobic or racist, then you'll realize that this claim is silly. The issue is that the local housing market has become disconnected from the local labour market, largely because of the influence of foreign capital, and people don't like that.

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That concern cuts across all groups – the concern is with the foreign money, not the foreign people.

And yes, there are straightforward policies to address the impact of capital, without targeting people.

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It is a false statement that 90% of Vancouverites agree with the tax. 43% of Vancouver's population is of Asian heritage – an astounding number. I hardly think 75% of these people are in agreement with this tax since it is aimed at foreign investors that are primarily Asian. Cities such as Vancouver that are hot spots for foreign money (others are London, Singapore, Paris, Rome, Hong Kong, NYC, Toronto, Sydney, Stockholm, LA, Tokyo, Melbourne, Auckland, Miami) are disconnected from local labour - this is just reality. These are the best cities in the world in which to live. There are only a few such cities and supply/demand reality dictate the prices. To imagine that the heavy hand of the government has the magic fix is absurd. There are no straightforward policies to address the impact of capital because no one can predict the human reactions of that impact. This is a totally false statement. The majority of the foreign capital is finding its way in to preconstruction condominium sales, essentially funding the construction of 'apartment buildings' because 70% of the sold units end up being leased. This is also the case in Toronto, Calgary, Montreal, Vancouver, and Ottawa.

Rising prices are all about low interest rates: Interest rates are low across the developed world, but only in a small minority of cities do we see housing prices galloping ahead of income levels on a long-term basis.

What matters are house prices relative to incomes, not just price growth.

In this respect, Toronto and Vancouver are by far the least affordable cities in Canada; other cities remain fairly affordable despite historically low interest rates. Also, prices surged in 2015-16, about seven years after interest rates were reduced to very low levels – and that coincides with a roughly $1-trillion (U.S.) exodus of capital from China.

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Of course rising prices are all about interest rates. Foreign buyers of resale homes in Vancouver and Toronto are a small part of the real estate economy, probably less than 10%. It is a false statement that only a small number of cities are experiencing galloping housing prices moving ahead of income levels. In all Western countries with expanding economies, all cities are experiencing abnormal price increases. Truly exceptional cities such as Stockholm, Hong Kong, Tokyo, Sydney, Melbourne, Miami, London, LA, Paris, Toronto (and there are more) are experiencing this phenomenon. All their local newspapers buzz about it daily. It's about interest rates and the exceptional nature of these cities that fuel the fire.

Calgary condo prices were higher than than those of Toronto in 2007. Prior to the collapse of oil prices, they were very similar to Toronto prices. In Edmonton, high-rise condo prices are also $500PSF as are those in Ottawa and Hamilton. Huge flows of foreign capital are not flooding into the cities, yet they are experiencing outsized price increases.

There are no data: While precise data are indeed lacking, we can infer the influence of foreign money in reliable ways.

We have academic and government studies of the now-defunct Immigrant Investor Program showing that Toronto and Vancouver were by far the most popular destinations for wealth-based migration in Canada – and remain so, because of Quebec's insistence on continuing its own program.

Australia and the United States also keep track of foreign buyers and they've seen a recent surge in buyers from China coinciding with rapid price appreciation in affected cities. Canada is just as enticing a target, if not more so, so it's reasonable to assume that the same has happened in "attractive" cities here.

And while the B.C. government's recent data collection confirms that foreign buying is substantial – around 10 per cent of transactions in Vancouver – it is actually a major underestimate: What matters is the primary source of income or wealth for a purchase, not buyer nationality.

It is when income or wealth is generated outside of the local labour market that local incomes and housing prices can become "decoupled," as we have seen in Vancouver. By this more accurate measure, much more than 10 per cent would be deemed "foreign."

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The bulk of foreign money is flowing into preconstruction condos in both Vancouver and Toronto. There is not currently any way for a government to track this. The data available is based on resale transactions only. This "decoupling" taking place is inevitable in cities with limited freehold growth potential. The future of Vancouver's housing will be more tenants and less home ownership. Berlin has just 10% of its housing stock owner occupied, Paris is 45%, Tokyo 45%, London 52%, NYC 49%, and LA 49%. Toronto is currently 70% Vancouver is 65% and falling every year. This will inevitably decline just as it has in other exceptional cities around the world.

The problem is all about supply: Some in the real estate industry will proclaim that Toronto needs to build its way out of the problem and open up land for development in the greenbelt around the city. However, supply of new housing in Toronto has kept up with population growth and the recent price surge can't primarily be explained with reference to supply issues, such as excessive regulatory hurdles.

While the supply of new single detached houses is slowing, and will eventually stop if the greenbelt regulations continue to be enforced, this is ultimately a good thing: Toronto already suffers from snarled traffic and if Canada is to ever tackle climate change, we will need to have densely populated cities. Besides, there is little evidence that restricting land in this manner has been the main cause of escalating prices, as I documented in a recent report.

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the problem is 100% about supply and only supply. Currently on the Toronto MLS there are 1000 condos for rent in the 416 and just 1400 for sale. These are numbers that approach critical shortages. Condo rental prices are now up over 20% this year due to tight supply. Condo prices are up over 10% for the same reason. 65% of the new housing stock comes from the condo industry in Toronto and 75% for Vancouver. City and provincial planning delays have taken a 4 year process to 6 years and it is getting worse in Toronto. The political/approval process is killing the supply of housing causing prices and rents to skyrocket. Places to grow such as Bradford, Hamilton, Innisfil, and Alliston can support tremendous lowrise growth and all have GO train infrastructure now or in its planning. These municipalities must grow now to accommodate the demand for lowrise.

We want foreign "investment": This isn't productive "investment," this is buying houses. There are no productivity gains from residential real estate spending – for all of its foreign "investment," incomes in Vancouver remain among the lowest in urban Canada.

That's a preliminary list. There will undoubtedly be much more obfuscation from those with a vested interest in the status quo. They have money at stake and will throw it around to have the provincial government listen. And they will be persistent, repeating endlessly the same misleading or disproved claims.

Yet, 82 per cent of Vancouverites say the foreign-buyer tax was long overdue.

Don't let the Ontario government lead you into the same crisis Vancouver now faces.

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This is a totally false statement. Home sales represent fantastically productive public investment. In Toronto, 25,000 new condos are sold every year. A reasonably large number are sold to Chinese and foreign investors. The 5 five-star hotels, plus 2 four-star hotels recently built or are under construction would have never happened without foreign investor support. This represents $2-3 billion of construction jobs and $25 million + of new annual property taxes for the city, in addition to $35-50 million of permit fees for the city. Additionally, the City of Toronto land transfer tax on all real estate sold produces close to $600 million a year from residential sales only.

Employers have been loudly claiming that the huge surge in employment and commercial high-rise construction has been 100% due to the surge in new condos in downtown Toronto. 20+ new office towers have been built or are now under construction in the core of the city since 2006. This represents multiple billions of dollars of new investment that is making Toronto the envy of the planet. The property tax windfall is enormous. Not a single North American city has seen this level of commercial surge in the last 7 years. Thank you very much to the residential real estate sales.