

B.C. boom a bust for homebuyers

By JEFF BUCKSTEIN

Vancouver's position as a prominent Canadian global financial centre helps to attract skilled jobs, foreign direct investment, venture capital and other economic perks, says a Conference Board of Canada report. But could there also be a dark side of unintended consequences attached to this success?

The British Columbia government recently slapped a 15 per cent property transfer tax premium on foreign purchasers of residential real estate in Vancouver to make real estate less attractive to foreign investors. This measure is also designed to make home ownership more affordable as booming house prices have created a serious shortage of affordable housing.

"While investment from outside Canada is only one factor driving price increases, it represents an additional source of pressure on a market struggling to build enough new homes to keep up. This additional tax on foreign purchases will help manage foreign demand while new homes are built to meet local needs," said B.C. Finance Minister Michael de Jong.

At the same time as the government announced the 15 per cent tax, it also introduced a Housing Priority Initiatives Fund. An initial investment of \$75 million will be provided for provincial housing and rental programs, toward which a portion of revenues from the new tax on foreign buyers will be earmarked.

Alex Hemingway, public finance policy analyst for the Canadian Centre for Policy Alternatives (CCPA) in Vancouver, said housing shortages exist across the province.

"In B.C. we have almost 150,000 people in core housing need, meaning that 30 per cent or more of their income is going to housing, or they're living in overcrowded or substandard housing. That's a major backlog in terms of affordable housing. And that's a consequence in part, of the major run-up in housing prices," he said.

There is both a foreign and domestic element to that, with a lot of speculative investment chasing homes, added Hemingway.

According to the Real Estate Board of Greater Vancouver, the Multiple Listing Service home price index composite benchmark price for all residential properties in Metro Vancouver was \$930,400 in July 2016. That was up 32.6 per cent compared to July 2015.

Although Hemingway views the new foreign buyer's tax in Vancouver, using the property transfer tax system, as a positive step, he doesn't believe it goes far enough.

"We've been saying at CCPA that we ought to be using the tools of taxation to cool that high end of the overheated housing market, and put those revenues straight into building affordable housing on a large scale. We can do a lot on the property tax side," he said.

"Take the property taxes that we



"From the B.C. Chamber of Commerce's point of view, housing affordability is very much an issue. Our members are saying that to us ... and asking us to talk to government on this issue."

Dan Baxter, B.C. Chamber of Commerce

have now, and design them so they're progressive, so you pay more on higher value properties. You can shield a lot of folks from that by having it kick in at the \$2 million [or] \$3 million level," Hemingway said.

Dan Baxter, policy development director at the B.C. Chamber of Commerce in Vancouver, said that in addition to the value provided by being an important Canadian financial centre, the city's prosperity is also enhanced by the presence of engineering services needed to support the development of abundant natural resource wealth in the B.C. interior.

He also recognizes that some

residents are struggling just trying to find a place to live.

"From the B.C. Chamber of Commerce's point of view, housing affordability is very much an issue. Our members are saying that to us ... and asking us to talk to government on this issue. We just had our (annual meeting) in Kelowna, and passed two resolutions — one dealing with 'how do we increase supply for market housing' as well as 'how do we increase the rental stock,'" Baxter added.

However, he believes it is too early to assess any potential correlation between strong economic growth in some sectors, and housing affordability in Vancouver,

the nation's third largest urban area behind only Toronto and Montreal, respectively.

"There is probably an impact," said Baxter. "But in terms of how that's driving the market, from the B.C. Chamber's point of view it really does come down to data. We need to get more data around who's buying and what's being bought. From there we can start to really assess what the impacts are, and then [determine] the right policy tools we should be pulling to help maintain housing affordability," he explained.

Colin Hansen, president and chief executive officer of Advantage BC, a not-for-profit society

with a mandate to promote British Columbia as a favourable location for international business, said Vancouver's position makes it as a key magnet for wealthy investors, mostly from Asia and particularly China.

Advantage BC helped fund the Conference Board of Canada report titled *Stronger Together: The Strengths of Canada's Four Global Financial Centres*. "The report overall stresses the fact that Canada has a real global strength when it comes to financial services," said Hansen, a former provincial cabinet minister.

"The purpose of this research was so that we could better understand the makeup of that strength, city by city. Previously we had lots of excellent national data on the Canadian financial services sector. But this is the first time that we've actually tried to look at the relative strengths of the four financial centres in Canada," he added.

Hansen said although it is too early to draw any definitive conclusions about the effectiveness of the new foreign buyer tax, he believes there have been some early results.

"I think that it has already been successful in taking out some of the hyper energy that was there. We saw that housing prices were going up because buyers had this firm belief that the prices were just going to continue to go through the ceiling, and therefore [felt] that they'd better buy today, no matter what they had to pay to get into the market."

A B.C. Ministry of Finance spokesperson, speaking on background, said the ministry expects that some transactions will proceed, with foreign residents paying the new tax, but that other transactions will be deterred in future as a result. The government will collect data through property transfer tax returns in order to monitor this activity and assess its effect.

OSFI warns of rising lending risks

The affordable housing shortage in Vancouver might be part of a larger problem with rising housing prices and a potentially overheated market.

The Office of the Superintendent of Financial Institutions (OSFI) has responded to the current situation by issuing an open letter to all federally regulated financial institutions, emphasizing the need to reinforce prudent residential mortgage risk management and warning about the rising risks and vulnerabilities associated with household lending.

"Persistently low interest rates, record levels of household indebtedness and rapid increases in house prices in certain areas of Canada [such as Greater Vancouver and Toronto], could generate significant

loan losses if economic conditions deteriorate," said the letter, signed by superintendent Jeremy Rudin.

The Bank of Canada's overnight interest rate remains at 0.5 per cent (it has been at or under 1 per cent since 2010). According to Statistics Canada, Canadian household debt was at just over 165 per cent (measuring debt to disposable income, excluding pension entitlements) after the first quarter of 2016.

Michael Dolega, a senior economist at TD Economics in Toronto, agreed that with the price of access to the housing market rising so rapidly, particularly in Vancouver and Toronto, the situation merits attention.

"Many people or households have increasingly leveraged themselves, and the levels of indebtedness

have been rising ... to the point where it is definitely a concern. Things are obviously being helped by low interest rates, because the carrying cost of this debt is relatively low," he said.

However, a future increase in the interest rate would put significant pressure on some of the households that have leveraged themselves significantly, Dolega added.

The OSFI letter reiterates that it expects all financial institutions to exhibit rigour in the verification of a borrower's income, noting that it is aware of incidents where institutions have encountered misrepresentations of either income or employment, or both. It also stressed that a thorough due diligence needs to be conducted when borrowers rely on income from sources outside Canada.

OSFI said, in regard to debt service ratios, that relying on the prevailing posted five-year mortgage rate to test a borrower's ability to service their obligations will not represent a sufficiently conservative stress test when interest rates start to rise.

"I think it's important to highlight the fact there is a risk that interest rates rise faster than we currently anticipate, and banks and other lenders should allow for that possibility when making lending decisions," said Dolega. "I think this is a welcome letter that shows the regulator is looking at these issues pretty closely, and wants to ensure that the lenders that it regulates follow these guidelines, and don't sort of let things slip," he added.

• Jeff Buckstein