

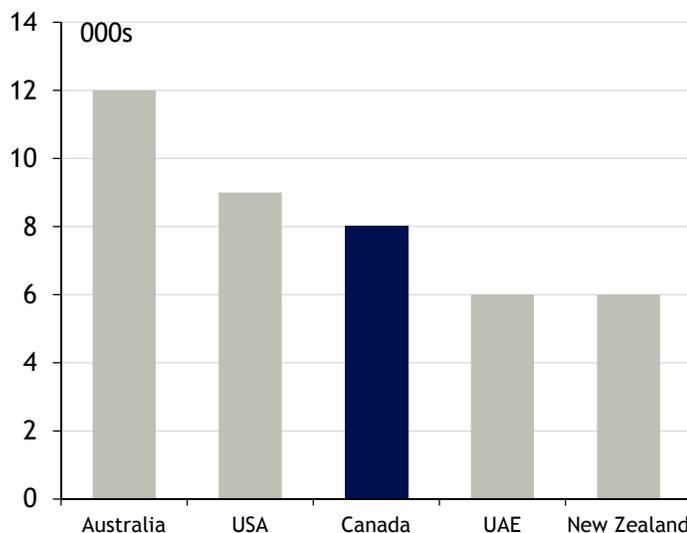
## Quick Hit – Time for Ontario to follow BC’s lead? (on foreign home buyers)

Six months ago, when meeting with Ontario’s Finance Minister ahead of a fall economic update, we argued *against* following British Columbia’s lead in taxing foreign homebuyers more aggressively. (BC, you’ll recall, slapped an incremental 15%-pt property transfer tax on purchases by “foreign entities” starting August 2016, while other high-profile jurisdictions overseas have imposed similar levies or other restrictions aimed at deterring foreign interest in their real property.) At the time, we argued (among other things): (a) foreign buyers weren’t as significant an influence in Toronto as they appeared to be in Vancouver; (b) the federal government still had levers to pull when it came to tackling undue foreign influence and becalming an overheated market; (c) rather than destroying pockets of demand, Ontario’s attention might be better trained on so-called “supply” constraints; (d) affordability, while not great, wasn’t eroding at light speed the way it was in BC, with affordability less worrisome in the condo segment of the market and generally bolstered by a low interest rate environment. Much of the above still holds, and yet, we admit we were wrong. Or rather, it’s time for a re-think. BC’s incremental property transfer tax wasn’t, in the end, like throwing cold water on a fire that had already burned itself out, as some feared. If anything, Vancouver’s housing market has regained its footing surprisingly fast. Notwithstanding additional federal policy actions, including more stringent mortgage stress-testing announced in the fall, Toronto’s market continues to inflate, with a growing number of surrounding cities/regions looking hot under the collar. To wit, the median selling price in Toronto’s resale market had soared >25% above year-ago levels as of February. And in much the same way federal infrastructure stimulus has been slow off the mark, the housing supply response to increasingly elevated prices has been uninspiring. If anything, there’s record low supply in the Toronto market, at a time when legitimate (i.e., non-speculative) demand is extremely robust. There’s seemingly no end in sight to Toronto’s influx of prospective home buyers, whether from rural regions, other provinces or other countries. Toronto possesses one of the hottest regional job markets in the country, and serves as a key entry point to one of the most liveable countries in the world after all. In the long run, supply has to be part of the solution, but it appears that more could be done to tame demand, and dulling the foreign bid for Toronto and environs could be part of a multi-pronged housing affordability strategy for Canada’s largest province. We’re not saying that an incremental property transfer tax levied on foreign buyers is *the* silver bullet when it comes to arresting what CMHC terms “problematic conditions” in the greater Toronto region, but its time may have come. While we’re at it, Toronto might want to take a very close look at Vancouver’s 1% Empty Homes Tax, which kicked in at the start of the year. Vacant homes may not account for as large a share of total homes in Toronto as in Vancouver (or many other world-class cities for that matter), nor are we advocating a Paris-style vacancy levy of 60% assessed value. But when a market’s this tight, every incentive to free up properties should be examined closely.

Warren Lovely & Stéfane Marion

### Chart 1: Canada attracting the wealthy

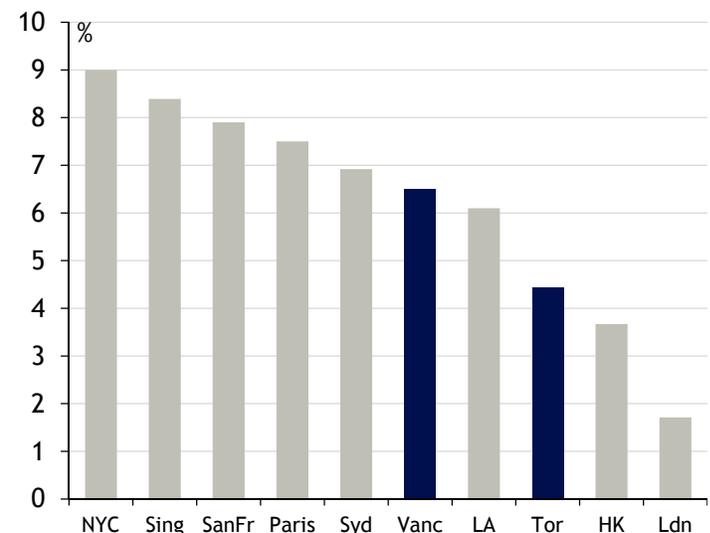
Top destinations for net inflow of high net-worth individuals (2016)



Source: NBF, Net World Wealth

### Chart 2: A look at international vacancy rates

Vacancy as a percentage of total homes counted by local governments



Source: NBF, Better Dwelling

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