

# THE SCAPEGOATING OF FOREIGN INVESTORS — AN INTEGRATED APPROACH TO HOUSING UNAFFORDABILITY

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On January 1st 2022, the federal government implemented first-ever national-tax on non-resident owners of vacant and underused housing. However, measures have not been effective at effectively reducing foreign speculation on Canadian real-estate as GTA home prices are up 28% from last year. What measures would you introduce in Ontario to combat the effects of foreign speculation on Canadian real-estate? Considering the ineffectiveness of prior demand side policy initiatives could supply side measures aimed at increasing inventory and creating price competition increase Canadian housing affordability? Have prior policies implemented in attempt to hinder foreign buying been useful in combating the housing crisis? How would these policies impact local economies in both the short-run and the longrun? How would housing markets within Canada outside of a policy's jurisdiction be affected by it? You may want to consider the following sources when constructing your brief:

- Housing minister: Canada needs temporary ban on foreign buyers to ease affordability crisis
- Trudeau pledges expansion of first-time home buyers' initiative, new foreign speculation tax
- Curb unproductive foreign ownership

## **Executive Summary**

While international investment in domestic real estate has contributed to the growth of housing prices in Ontario, a significant portion of increases may be ascribed to domestic speculation that must be accounted for when addressing housing affordability. Therefore, our integrated three-step policy approach aims to implement long-term measures to overcome the short-term inelasticity of housing supply.

## **Introduction**

The real estate industry is at an all-time high and housing price increases over the past decade have far outpaced the growth of real wages. Significant barriers to homeownership put the well-being of first-time Canadian homebuyers (whose portion of total homebuyers has declined to an all-time low since 2015) and vulnerable communities at stake (1). While affordability indices show the gap between the average Canadian and homeownership at its worst state

since 1990, the situation is only worse for domestic would-be homeowners in Census Metropolitan Areas (CMAs) (2).

While international investment in domestic real estate has exacerbated the affordability challenges in CMAs, foreign ownership not only varies in effect across different municipal and provincial jurisdictions but also exerts limited influence on root causes of the housing crisis (3). Domestic factors must be addressed when combating the effects of such foreign speculation on Canadian housing affordability, a measure that appeals to the lower common denominator in the real estate industry.

### **Approach and Results**

In order to combat foreign speculation, we first need to identify its impact (4). Price reflects both the relative desirability of the estate in question and the financial capacity of prospective buyers (5). Past implemented approaches have attempted to combat perceived effects of foreign speculation in Canadian residential real estate. Although

policies such as speculation, vacancy, and foreign buyer taxes have been immediately effective in arresting price growth trends, they have failed to fully reverse historic trends in reducing housing prices (simply adjusting property taxes is mostly front-loaded and causes volatility in tax rates) (6). There exist other financial capability factors that affect Ontarians and the domestic housing market, such as increasing income inequality, regional development, inflation, increase in housing construction costs, and low mortgage interest rates (7).

Unlike financial capabilities, 'desirability' is usually determined by location (nearby amenity areas and areas with price appreciation in the future -- a small tax does not discourage non-residents from buying in a market where prices are soaring). Regions of greatest residential growth correspond to municipalities with the most extensive zoning guidelines and developments (8). Development costs constitute a significant percentage of housing costs that are largely passed onto homebuyers and represent a significant hurdle for real estate developers to overcome, especially in CMAs (9). Seemingly minor bureaucratic delays in development

lead to substantial reductions in the supply of new residential units (10).

While the truth is that the growth model in Ontario seeks to attract global capital (foreign investment can flow into the Canadian market while evading foreign tax in many ways due to increased global financial flows), most of the demand still originates domestically (11).

### **Implications and Recommendations**

It is likely that current speculation and vacancy taxes fail to prove completely effective due to a lack in both magnitude and specific direction of the tax. The first recommendation, therefore, is to implement progressive foreign speculation and ownership taxes in CMAs where decoupling of income and housing price are highest and use the subsequent funding to finance a **Public Investment Pool for Affordable Housing** (PIPAH). There are existing community land trusts in Canada composed of NPOs that hold land on behalf of the local communities (12). PIPAH would fund the kickstart of more community land trusts

and subsidize dedicated affordable units for low-income populations. It will also invest in housing education. These funds must meet sustainable development goals and generate financial and social return benchmarks for developers under a multisector investment pool to incentivize supply of dedicated affordable units (13).

As the supply chain is an extremely complicated system in the real estate industry, the correct questions to ask in this case are: what and where are we building? For whom are we building? Thus, we next recommend the coupling of supply promotion with the implementation of new zoning guidelines. The rise of NIMBYism has proven a significant obstacle to increasing housing supply in urban centers, as municipalities frequently rule in favour of existing homeowners as opposed to would-be homebuyers (14). Instead of concentrated condominiums where amenities are of high value and desirability (attracting not only foreigners but also real estate investors and residents with high domestic and/or large undeclared foreign incomes), we recommend changing the zoning bylaws to promote the supply of the city's "missing middle" --- semi-detached,

duplex, triplex and walk-up apartments (15). Homeowners should be financially encouraged to self- renovate their old, single-detached homes into the “missing middle” (16). Renovation would also reduce the bureaucratic burden new real estate developers must overcome (17). The aforementioned use of a luxury home’s wealth tax that progressively increases with housing value would also feed directly into PIPAH to fund the development of the “missing middle” (18).

Finally, there exists a need to ensure that subsidies are successfully delivered top-down to relieve housing burdens and reduce the development costs of new units (19). The lack of vertical checks may give rise to a horizontal shift of responsibilities. A centralized, vertical check-and-balances mechanism not only can ensure funding is properly implemented but also will monitor the impact of developers on city councils (20). Appeal boards can be created to supervise provincial and municipal policies, including zoning regulations, developmental red tapes and

rent controls that limit the ability of builders to boost supply (21).

### **Conclusion**

The current housing crisis concerns both human rights and commodity values. As policymakers and stakeholders with differing objectives, we believe this macroprudential approach is more effective in emphasizing the connection between housing, financialization and inequality in modern Ontario.

1. Khan and Xu, "Housing Demand in Canada"; "The Great Affordability Squeeze?"
2. Leadership, "HOUSING TRENDS AND AFFORDABILITY - December.Pdf."
3. "Examining Escalating House Prices in Large Canadian Metropolitan Centres."
  4. Khan and Xu
5. Paixão, "Canadian Housing Supply Elasticities"; "Examining Escalating House Prices in Large Canadian Metropolitan Centres."
6. Dachis, Duranton, and Turner, "The Effects of Land Transfer Taxes on Real Estate Markets"; Chao, Yu, and H, "Housing Markets with Foreign Buyers."
  7. Dachis, *et al.*
  8. Gordon, "Reconnecting the Housing Market to the Labour Market."
    9. Gordon.
    10. Gordon.
11. "Examining Escalating House Prices in Large Canadian Metropolitan Centres."
  12. "Neighbourhood Land Trust & YWCA Toronto."
  13. United Nations, "THE 17 GOALS"
14. "House Divided: How the Missing Middle Will Solve Toronto's Housing Crisis."
  15. "House Divided"
  16. "House Divided"
  17. "House Divided"; Paixão, "Canadian Housing Supply Elasticities."
  18. "House Divided"
19. Razin, "Checks and Balances in Centralized and Decentralized Planning Systems."
  20. Razin
  21. Razin

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