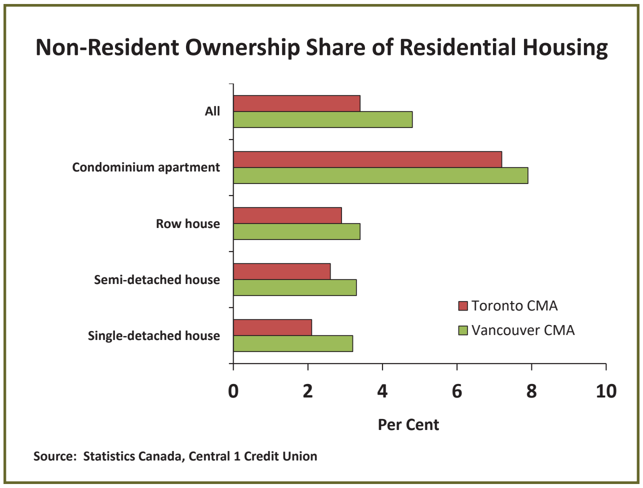
Foreign Buyer Boogeyman, More Myth than Reality?

The foreign buyer boogeyman, like its counterpart under the bed, is more myth than reality according to new research from Statistics Canada and CMHC. As part of the government's deep-dive into the housing market, and the new Canadian Housing Statistics Program, non-resident ownership in the Vancouver and Toronto Census Metropolitan Areas (CMAs) were placed under the microscope. [1] Contrasting with the general media stories on the topic over the past two years, the data suggests the market impact of foreign buyers may have been blown out of proportion.

This new data covers non-resident ownership of residential property, which is not citizenship based. Non-citizens with a local permanent residency are resident owners, while citizens and non-citizens with permanent residences abroad are not. As of mid-2017, non-residents in the Vancouver CMA owned 4.8 per cent of residential properties, with a corresponding 3.4 per cent in the Toronto CMA. This is a relatively small share of the overall housing pie and a mild driver of market activity.

Not surprisingly, non-resident ownership is relatively more prevalent in the condominium apartment market, with shares of 7.9 per cent in the Vancouver CMA and 7.2 per cent in the Toronto CMA. As investments and/or recreational properties, these units require less maintenance, provide greater security, and ease of rental opportunities relative to other housing types. Non-residential ownership share for single-detached homes in the Vancouver CMA was 3.2 per cent and 2.1 per cent in the Toronto CMA.

A novel characteristic of the data is linkage with provincial property value assessment data. On average, non-residents spend significantly more on average than domestic buyers, but the gap



is particularly prevalent in the single-detached market. On a product-market basis, assessed values of non-resident owned properties is in the 8 – 12 per cent range in the Toronto CMA, with non-resident owned apartment and row values about 10-15 per cent higher in the Vancouver CMA. One glaring difference is in the Vancouver CMA single-detached market, where the average non-resident purchase prices was 45 per cent or $700,000 more than the average value of those owned by residents. In large part, Statistics Canada finds that these deviations can largely by explained by location, size and age. Non-residents generally purchase newer more centralized units in desirable locations, and possibly trophy properties in the Vancouver CMA detached market.

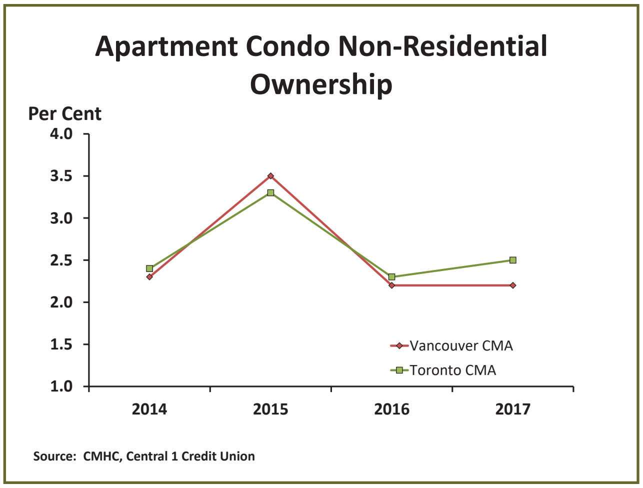
One caveat of this Statistics Canada data is that this represents a snapshot in time, and doesn't address changes in non-resident ownership over time, and if in fact it has accelerated. A sister report by CMHC on non-resident ownership in the condominium apartment market, but based on a different data generating methodology that is more limited in scope than Statistics Canada's, suggests the share of non-resident ownership in the Vancouver CMA at 2.2 per cent has not changed from 2016, and has actually declined since 2014 and 2015.[2] Meanwhile, Toronto CMA non-resident ownership shares were steady at 2.5 per cent, up from 2016, but similarly lower

<?> Statistics Canada. Non-resident Ownership of Residential Properties in Toronto and Vancouver: Initial data from the Canadian Housing Statistics Program. http://www.statcan.gc.ca/pub/11-626-x/11-626-x2017078-eng.pdf

Average Values of Select Property Types				
Toronto CMA				
	Resident Owned	Non-resident owned	$ Difference	% Difference
Single-detached house	840,600	944,100	103,500	12.3
Semi-detached house	618,900	681,300	62,400	10.1
Row house	500,200	541,500	41,300	8.3
Vancouver CMA				
	Resident Owned	Non-resident owned	$ Difference	% Difference
Single-detached house	1,568,100	2,275,900	707,800	45.1
Semi-detached house	1,158,300	1,283,100	124,800	10.8
Row house	614,500	709,400	94,900	15.4

than previous years. This data is should not be compared to Statistics Canada estimates, which is more complete, but CMHC estimates provide a time trend over recent years. Little change in non-resident ownership is consistent with provincial government and real estate board estimates that pegs foreign purchasing at a modest rate of five per cent.

Comparably, Vancouver and Toronto metro area non-resident ownership rates dwarf other metro areas across Canada based on CMHC data, which is generally below one per cent.



Takeaway

Non-resident ownership data suggests foreign influences are not the key driver of housing market activity and price growth in Canada's largest metro markets as often made out to be. Rather, strength in the economy, low interest rates, and strong rental market conditions have propelled demand from homeowners and domestic investors. Millennial homebuying and intergenerational transfers of wealth is also a factor. Recent weakness in Toronto area sales has likely reflected changes to rental regulations rather than the foreign buyer taxation, although like Vancouver, luxury segments of the market have been curtailed. Lack of supply has contributed to rising price growth.

The fact that Vancouver and Toronto have a higher share of foreign purchases is not surprising, given the latter is a global financial centre and th e former has historically strong ties to Asia-Pacific economies. These markets are highly desirable, and clearly foreign purchases do influence parts of the market, but the data suggests it in the luxury segment with limited impact on the general market. Further demand constraints on non-resident buyers is unlikely to diminish demand in a meaningful way, suggesting further supply uplift is the way forward.

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