

Canada's housing crisis: The time for study has passed

By John Bruk

July 8, 2016 – *The Globe and Mail*

First, federal Finance Minister Bill Morneau announced last month that “Ottawa will create a ‘working group’ of officials from all three levels of government to study the state of the Canadian housing market over the summer and make recommendations to the government.”

Next, British Columbia Premier Christy Clark announced plans to create a dedicated superintendent of real estate to regulate the industry.

And just yesterday, B.C. Finance Minister Mike de Jong released data from a recent three-week period showing that 3 per cent of residential home transactions province-wide involved foreign nationals. During the same period in Metro Vancouver, 5 per cent of all real estate purchases were made by foreign buyers, almost all of them Chinese nationals.

The only assurances we can derive from those announcements are that effective solutions to the housing crisis have been delayed by the federal government, that the B.C. government believes the crisis stems in part from the inability of the real estate industry to effectively self-regulate and, to quote Mr. de Jong, the data behind speculation that foreign nationals are driving up real estate prices in his province, while preliminary, are “real, it is actual and it is factual.”

Concerned about soaring house prices and related record household debt levels, Canada's banking watchdog, the Office of the Superintendent of Financial Institutions, has sounded the alarm. In a rare open letter, OSFI has asked Canada's financial institutions to do more thorough checks on borrowers while promising to provide extra scrutiny on key areas of lending, including income verification and risky or non-traditional loans.

But the primary responsibility for curbing this crisis lies not with the banks, nor with the industry that has failed to prevent abuses of a well-functioning market by some of its members, who have added fuel to the crisis and benefited at the expense of the larger community. No, the responsibility lies with the provincial governments and municipalities that have taken a wait-and-see attitude toward the problem.

This issue is straightforward: Members of China's middle class, who have lot of money to spare and who are living in overcrowded and polluted cities, are looking for a more pleasant environment for themselves or their children. We cannot blame them for wishing to settle in Vancouver and Toronto, and in the process helping to drive up housing prices to the point of unaffordability for average Canadians.

When a similar problem arose in Singapore, its government did not commission studies to deal with the problem. It introduced effective regulations in a bid to maintain affordable housing for its citizens. That is how responsible and competent governments act. So instead of action-killing studies, why not learn from our friends in Asia?

As Canada's new housing study is being undertaken, expect more of the same from Chinese investors, not only in the residential real estate space but also in the corporate and commercial sectors. China's resurgence as an economic power has given the Chinese plenty of money to acquire Canadian assets, including prime housing in Vancouver and Toronto.

Prime Minister Justin Trudeau has an opportunity here to affirm his government's commitment to finding an effective solution to the housing crisis, and in the process demonstrate his statesmanship and

decisiveness. Mr. Trudeau can do this by meeting with the premiers and mayors of the impacted jurisdictions to establish a set of emergency measures. These measures should include:

- Restricting foreign purchasers to new housing accommodations to be approved for future construction;
- Taxing housing purchased by non-resident foreigners at a rate to be determined;
- Requiring foreigners resident in Canada to prove sufficient Canadian taxable income to qualify for mortgage loans;
- Ensuring the maintenance of all unoccupied housing meets neighbourhood standards, with neglect mitigated at the owner's expense;
- And after the federal working group has reported back, the three levels of government should meet to agree on a set of regulations to replace these emergency measures.

Anticipating the increasing global reach of the emerging Asian economies, then-prime minister Pierre Trudeau led a unanimous Parliament in enacting the Asia-Pacific Foundation of Canada Act in 1984. A major objective of that Act was to help Canadians better understand and interact with Asian expansion, including immigration, trade and investments.

Immigration and investments from Asia will continue to increase, and if properly managed they should yield substantial benefits to Canadians. Hopefully this current housing crisis will prod governments to be better prepared in developing winning, not losing, strategies to realize the substantial benefits for Canadians that a resurgent and increasingly affluent Asia presents.

Canadians are entitled to no less.

John Bruk is the founding chairman of the Asia Pacific Foundation of Canada.