Ontario reconsidering a foreign buyers' tax to cool housing market

By Tim Shufelt and Janet McFarland
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The Ontario government is reconsidering its opposition to taxing foreign home buyers, saying it is now open to a B.C.-style levy to restrain Toronto's hot housing market.

Finance Minister Charles Sousa said on Thursday he is looking at the tax as one of a number of options to control aggressive growth in home prices, after rejecting such a measure last year.

"A year ago I was thinking, 'Let market forces prevail,'" Mr. Sousa said. "But now I'm concerned about … the ability of people to enter the marketplace. [There are] bidding wars everywhere you go, it appears, and I'm sensitive to that."

With February data showing detached-home prices in the Greater Toronto Area having risen by more than 30 per cent over the last year, a growing number of economists have warned that the market risks inflating beyond the control of policy makers.

Warren Lovely, head of public-sector research and strategy at National Bank Financial Inc., said he has also come around to the idea of a foreign-buyers tax, after having advised against it in discussions with Mr. Sousa last fall.

Runaway Toronto prices combined with the effectiveness of efforts to cool the Vancouver market mean Ontario should rethink its strategy, Mr. Lovely said in a research note on Thursday.

"We're not saying that an incremental property transfer tax levied on foreign buyers is the silver bullet," Mr. Lovely said. "But its time may have come."

Mr. Sousa will likely face a fight if he decides to proceed.

Real estate industry groups have strongly opposed a foreign-buyers tax, saying it does not address the core issue of a shortage of supply of available homes for sale.

"The main culprit behind rapidly rising house prices is the GTA's unbalanced market – housing supply cannot meet demand – not foreign buyers," Tim Hudak, CEO of the Ontario Real Estate Association, said in a statement on Thursday.

Brad Henderson, CEO of Sotheby's International Realty Canada, said foreign buyers are a tiny proportion of the Toronto market and any move by Mr. Sousa to tax them will not fix the more pressing problems.

"Our view is that it's the wrong policy approach because the presumption is that the foreign buyer is the one driving prices up in Toronto and that's not the case – no facts support that that's the case," Mr. Henderson said.

Meanwhile, Toronto Mayor John Tory wants to see more data on the effect of foreign buyers on the city's market before supporting a tax on them, a spokesman said on Thursday.

Legislators in British Columbia also faced opposition before introducing a 15-per-cent tax last August on international investors buying property in the city.

Home sales in Vancouver have dropped off since then, and last month were down by more than 40 per cent from the record volume the previous year. Prices for detached houses sold last month within the City of Vancouver dropped by 5 per cent to an average of $2.67-million.

While it is still too early to say how much of that slowdown is a result of the tax, the reduced level of foreign purchases "likely contributed to the cooling in prices," Bank of Nova Scotia senior economist Adrienne Warren said in a report.

Joshua Gordon, an assistant professor in the school of public policy at Simon Fraser University, said he believes foreign buyers are driving up prices in Toronto – as he believes they were in Vancouver.

The types of supply problems Toronto is grappling with "are not even close" to sufficient to fuel the pace of price growth seen in the city over the past year, Dr. Gordon said.

"When you have a pretty tight market, just adding a few extra buyers can really put a lot of pressure on the system."

Taxing international buyers in the Vancouver area helped to curb speculative activity in general, he said, as the expectation of price increases itself tends to fuel the momentum of the market.

A side effect of Vancouver's tax, however, may have been the shifting of foreign interest out of Vancouver and into the Toronto market, Royal Bank of Canada CEO Dave McKay said in a recent interview with The Globe and Mail.

"We may need actions that are similar to Vancouver," Mr. McKay said.

Meanwhile, the Toronto market continues to pick up speed. Detached houses in the GTA sold for an average price of $1.21-million in February, trouncing the old record of $1.07-million set the previous month.

"If policy makers leave this market to its own devices, there is a real risk that a still-manageable bubble is pumped by rampant speculation into something much more dangerous," Bank of Montreal chief economist Douglas Porter said in a research note last week.

As the affordability of single-family homes has deteriorated, the momentum in prices and sales has spilled over into the Toronto condo market, as well as to surrounding communities.

"Single-family homes in many mid-priced cities, including Hamilton, Kitchener and Barrie, also are moving out of reach of the average buyer," Ms. Warren wrote.

Even as more and more prospective buyers get priced out of the market, purchasers shouldn't expect relief on prices, she said. "Resale housing inventory is expected to remain historically tight, with active listings in Toronto at a decade-and-a-half low."

Limited supply is a key driver of Toronto prices, which is one reason Mr. Lovely said he previously dismissed the idea of a foreign-buyers tax.

But at this point, measures targeting both the demand and supply sides should be considered, he said.

"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 multipronged housing-affordability strategy."