Editorial: Does Toronto need a tax on foreign home-buyers?

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Ontario Finance Minister Charles Sousa may be on the verge of joining a trend, and he would probably be right to do so. Like a host of economists and regulators, he's worried about the symptoms of an overheated housing market in the Greater Toronto Area. He should be.

So Mr. Sousa is letting it be known that the province's Liberal government may follow the example of British Columbia, which imposed a levy on foreign home-buyers, in an attempt to cool the excitement of speculators. In February, detached-home prices in the GTA rose by fully 30 per cent compared with the previous year.

Initially, the B.C. government resisted the idea of a levy. Michael de Jong, the B.C. Finance Minister, was reluctant to risk provoking a reduction of the value of homeowners' equity. But last summer, as housing prices continued to rise, Mr. de Jong changed his mind. After B.C.'s 15-per-cent foreign-buyer levy was established, the housing market there appears to have begun to ease.

The foreign-buyers tax applies to non-resident non-citizens, not immigrants to Canada. And if and when the overheating in the real estate market recedes, the measures can be reduced or removed. It's uncertain exactly what effect a tax could have on the housing market in Ontario, but evidence strongly suggests it couldn't hurt.

Last week, the Bank of International Settlements said Canadian housing has been showing signs of "early warning indicators" and "vulnerabilities," unusually so in developed countries.

The BIS says Canada has one of the highest credit-to-GDP ratios among developed nations – a pattern more common with countries like China.

So far, B.C.'s foreign homebuyers tax seems to be having a modestly positive impact. Mr. Sousa is right to be considering the same policy for Ontario.