

A foreign-buyers housing tax in Toronto? Bring it on – and fast

By Rob Carrick

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Bring on the foreign-buyers tax on Toronto housing.

Do it fast. Monday is not too soon.

The Toronto market must be tamed because it's turning into a laboratory experiment on how obsessional thinking about a particular kind of financial asset can warp the finances of individuals and governments. The more Toronto houses soar in value, the more vulnerable all these parties are to an ugly correction.

A foreign-buyers tax has helped to settle a frantic Vancouver market, and there's no reason to think it wouldn't help slow Toronto as well. We want to pump the brakes on housing through a series of measures, if required. Bringing the market to a screaming halt would be just as bad as letting it soar and then crash.

A taste of Toronto madness: Sales were up 5.7 per cent in February on a year-over-year basis, while the average price soared 27.7 per cent to \$875,983. What economic fundamentals have changed so dramatically that house values should rise by that much in 12 months? Did the economy surge ahead? Did inflation jump? Has there been a serious increase in full-time work and big pay increases? Did interest rates plunge to make mortgages more affordable?

No, no, no and no. What's driving the Toronto market is mostly a mix of psychology and adrenalin. To start with, few people are listing their houses for sale because everything else on the market is expensive, too.

This is the "trapped wealth" phenomenon described recently by Bank of Montreal chief economist Doug Porter. The only way to unlock the wealth in your home in Toronto is to

drastically downsize, or buy a place in Kapuskasing.

Scarcity of homes for sale in Toronto has driven up prices, which in turn draws people into buying. They figure they must strike now or risk never being able to buy a first home or move up to something bigger. This is why we have bidding wars on grim little shacks in the city. It's all about FOMO – fear of missing out.

Realtors don't want a foreign-buyers tax. They prefer politicians to instead address what they see as a supply problem caused by regulations that restrict construction of new houses. Condos are as thick as grass in Toronto – a lawn of glass and steel. New housing projects are scarcer, and this imbalance needs attention because a lot of buyers prefer houses over condos.

But that's a medium- to long-term fix for housing. A foreign-buyers tax is much quicker-acting, so let's get on it. Don't be deterred by data from the Toronto Real Estate Board indicating that just under 5 per cent of residential real estate transactions last year involved foreign buyers, and that more than half were buying homes for themselves or members of their family.

The modest size of the contingent of foreign speculators argues for a tax, not against. If TREB's numbers are accurate, a tax would slow the market modestly rather than crushing it. Bloated to bursting as they are, house prices need delicate handling.

The reason is that big swaths of the country are mortgaged to residential real estate. Individuals have massive amounts of their wealth tied up in their houses, governments at various levels have come to rely on tax revenue generated by

the housing sector and the entire economy depends heavily on spending related to housing.

We need a healthy housing sector to sustain all who depend on it. What we have in Toronto is dysfunction. Even agents are struggling to cope. The ones who have houses to sell are laughing, but representing buyers these days is brutal because there's so little to buy and so much competition to snap up the homes that do go on the market.

People who own a house in Toronto are boxed in by high prices on anything else they'd like to buy. Those who want to buy a first home in the city are increasingly being priced out of the market, even if they look in cities outside Toronto. And governments have developed an alarming dependency on tax revenues from housing.

We need to stabilize the housing sector, starting now. A foreign-buyers tax is a good place to start the process.