Toronto housing market feels effect of foreign-buyers tax

By Justin Giovannetti and Jill Mahoney
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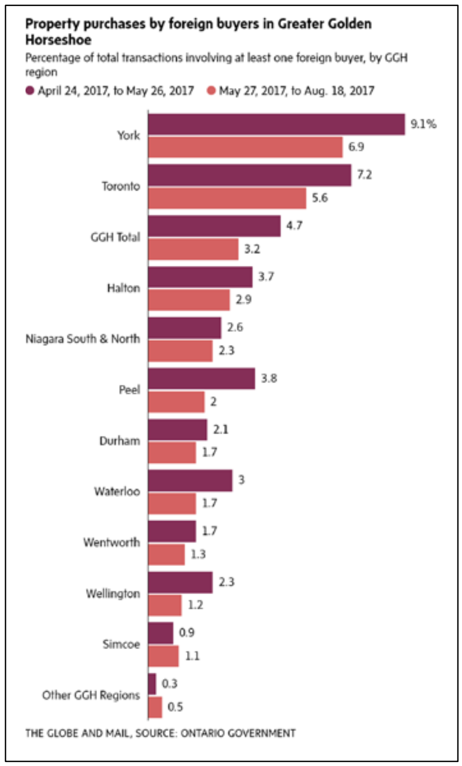
Purchases of Toronto homes by foreign buyers dropped over the summer after a new tax in Ontario began targeting international property investment, falling from 7.2 per cent of sales in May to 5.6 per cent of homes sold over the three months ending in August.

Toronto's real estate market has been in a slump for months as prices have fallen and the number of homes with for-sale signs has risen.



The new data from the provincial government will feed a debate about whether Ontario's new 15-per-cent foreign-buyers tax is itself responsible for the slide or if the psychological effects of the tax shook the market.

Foreign investment began to fall in a vast area around Toronto known as the Greater Golden Horseshoe soon after the tax was introduced in April, according to the data from Ontario's Finance Ministry. At the time the tax was introduced, the region's housing market looked to be overheating as average home prices soared to nearly $1-million.

Since then, sales to foreign buyers in the wider region dropped from 4.7 per cent of homes in the month before May 26 to 3.2 per cent of sales between May 27 and Aug. 18. The Bank of Canada also hiked interest rates during that period, increasing the cost of a mortgage.

Premier Kathleen Wynne's government has celebrated falling sales to non-residents as a sign of the tax's success. "The measures that we introduced as a part of the Fair Housing Plan are working," Finance Minister Charles Sousa said in a statement. "We are seeing increased housing supply and evidence that more people are finding affordable homes."

The drop in home purchases by foreign buyers did not come as a surprise, said Josh Gordon, a professor at Simon Fraser University in B.C. who researches Toronto's housing market.

"When you put a tax on something, the frequency of that activity declines. That happened in Vancouver as well and so that was to be expected," he said.

The Ontario government's introduction of a foreign-buyers tax created a "powerful psychological impact on the market" that affected not just international buyers but also domestic consumers, Prof. Gordon said. Instead of the previous widespread belief that Toronto housing prices would continue to rise on strong international demand, people began to worry the market had peaked and prices were inflated.

The largest amount of purchases by foreign buyers during the period was recorded in Toronto at 857 properties. York Region, which includes the hot-spot communities of Markham and Richmond Hill, was the area with the highest percentage of sales to foreign buyers at 6.9 per cent of homes – down from 9.1 per cent between April and May.

Foreign buyers in the two areas had divergent tastes in properties, according to the new data, with nearly 70 per cent of purchases in Toronto recorded as condominiums. However, most foreign buyers in Ontario had their eyes on detached houses, with more than half of sales recorded in that category.

Richard Silver, a Toronto real estate agent who works with foreign buyers, said the new tax "shocked the marketplace" and gave international buyers reason to pause.

"Whenever a tax like that is implemented, people sort of pull back and they wonder what's going to happen and also what it means in terms of are they welcome to invest in Canada and I think that's sort of taking people aback," said Mr. Silver, a past president of the Toronto Real Estate Board.

Despite the tax, however, he said foreign home buyers are still eyeing the Greater Toronto Area (GTA) housing market and he noted that prices are affordable for people whose funds are in U.S. dollars, given the exchange rate.

The average home price in the GTA was $732,292 in August, down almost 21 per cent from April, when the average reached $920,791.

Catherine To, a real estate agent specializing in the suburbs of Markham and Richmond Hill, where sales have plummeted since the tax was implemented, said the levy took away home buyers' confidence in the market, causing many to retreat because they expected future bargains.

"This is purely psychological," said Ms. To, who called the government's decision to introduce the tax "irresponsible."

Ms. To said some of her Chinese clients are still interested in buying GTA real estate because they want to move their assets or for their children to study abroad. The new tax is just part of the price of doing business, she said.

The government also released data from outside the Greater Golden Horseshoe for the first time, recording that 2.6 per cent of all transactions across Ontario in the spring were made by foreign buyers. In Ottawa, 2.1 per cent of homes were purchased by foreign buyers.

Ontario's tax applies to people who aren't citizens or permanent residents of Canada. According to the government, the tax was designed to discourage speculation in the province's housing market by non-residents, not to make it harder for them to move there.

The tax was introduced nearly a year after British Columbia implemented a 15-per-cent levy in the Vancouver region. Statistics collected by the B.C. government showed foreign buyers accounted for 13 per cent of purchases in Metro Vancouver before the tax took effect on Aug. 2, 2016. That has fallen to between 3 per cent and 4 per cent in the year since.