B.C. measures to crack down on speculation could drive foreign buyers to Ontario

By Janet McFarland
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New real estate measures in British Columbia could be an incentive for Ontario to match the moves or risk seeing more speculators turn their sights to Toronto as a more attractive investment location.

The B.C. government unveiled a package of reforms on Tuesday in the provincial budget that increased its foreign-buyers tax immediately to 20 per cent from 15 per cent, and extended it to other parts of the province. B.C. also announced a new tax – 0.5 per cent in 2018, and then 2 per cent in the following years – that homeowners who do not pay income tax in the province will be charged annually.

Canadian Imperial Bank of Commerce economist Benjamin Tal said the moves will steer more foreign buyers to Toronto and give the Ontario government motivation to boost the rate of its own foreign-buyers tax from 15 per cent to 20 per cent.

“It would open the door and give Ontario a good excuse to raise the tax to 20 per cent, because you have a race now to the top,” he said. “I think the temptation will be there.”

Mr. Tal said he believes foreign-buyers taxes have no major impact on many overseas investors, who see them as a cost of doing business. But he said politicians are becoming attached to the tax as a growing new revenue source to fund social-housing projects.

“Even if you don’t slow down the market, you get something out of it,” he said.

The new measure, which the B.C. government is calling a “speculation tax,” will include Canadians living in other provinces. Principal residences and long-term rental properties will be exempt, encouraging investors to rent homes rather than keep them vacant.

The tax rate in 2018 will be $5 for every $1,000 of assessed property value, or 0.5 per cent, but will rise to $20 per $1,000 of value, or 2 per cent, by next year.

Josh Gordon, assistant professor of public policy at Simon Fraser University, said the details of the new tax will be crucial in determining its impact. The B.C. government said it will apply to homes occupied by “satellite families,” typically spouses or children, while the main income-earner works elsewhere and pays little or no income tax in B.C.

The province has not unveiled detailed rules about how it will define satellite families or how stringently it will apply the tax, which Prof. Gordon said will determine how many foreign buyers bypass Vancouver in favour of Toronto.

“I think there’s no doubt that some money will leave Vancouver and land in Toronto,” he said. “The question is how much. And depending on the design of the tax, it could be substantial.”

Economist Robert Kavcic of Bank of Montreal said the tax could have more impact than the foreign-buyers tax because it will be paid annually based on the value of a house. It would total $100,000 a year on a $5-million home in Vancouver, for example.

“If you’re looking at Vancouver versus Toronto as a foreign investor, you’re paying 5 per cent less to get in on the same priced house in Toronto and you’re also saving 2 per cent a year,” Mr. Kavcic said. “So if you just want capital in the country … then Toronto is cheaper.”

A statement from Ontario Finance Minister Charles Sousa's office said the province's current rules are working.

"We will continue to monitor the housing market to ensure everyone in Ontario who wants to buy or rent a home has the opportunity to do so," it said. "However, recent data suggests that our current plan is working: Non-resident speculators have decreased, average home resale prices have moderated and the housing supply has grown steadily."

Mr. Kavcic said Montreal will be even more appealing than Toronto because it has no foreign-buyers tax and will likely see more investment because of Vancouver's tax changes.

"Anecdotally, we've already seeing quite a bit of activity shift over to that market," he said.

Despite the tax gap, Mr. Kavcic said it is too soon for the Ontario government to match B.C.'s moves, as the housing market in the Toronto region is still recovering from the introduction of the foreign-buyers tax last April. Average prices for detached houses in the Greater Toronto Area are still falling on a month-over-month basis and have not stabilized, he said.

"In Vancouver, we saw the market stabilize and start to push higher again, and Toronto is still undergoing a correction," he said. "So I don't think it's as critical right now."

Phil Soper, chief executive officer of Royal LePage, said the Ontario government risks triggering a major market correction if it adds more policy changes while the Toronto market is still adjusting to tougher new qualification rules for mortgages that took effect on Jan. 1.

Most of the impact of the foreign-buyers tax came from Canadians who feared its effects, Mr. Soper said. More new taxes would create even greater psychological uncertainty in the Toronto market, he said.

"Taking another swipe at demand and pulling more people out of the market could risk a hard correction and a steep decline in home prices, which would have wide and dangerous implications for the economy over all," he said.

"The big difference between Ontario and B.C. right now is that B.C. has moved through their correction and home prices are in danger of escalating too rapidly again, whereas in Toronto, we don't have any situation like that. We could in 2019, potentially, but it's a very different market in B.C. and Toronto right now."