The Role of Foreign Capital in Vancouver's Housing Market

by

Anjum Mutakabbir

B.A. (Hons.) (Economics), McMaster University, 2014

Project Submitted in Partial Fulfillment of the
Requirements for the Degree of
Master of Public Policy

in the
School of Public Policy
Faculty of Arts and Social Sciences

SIMON FRASER UNIVERSITY

Spring 2016

Approval

Name:	**Anjum Mutakabbir**
Degree:	**Master of Public Policy**
Title:	***The Role of Foreign Capital in Vancouver's Housing Market***
Examining Committee:	**Chair:** Nancy Olewiler Professor, School of Public Policy

Josh Gordon
Senior Supervisor
Assistant Professor

John Richards
Supervisor
Professor

Doug McArthur
Internal Examiner
Professor

Date Defended/Approved: March 29, 2016

Ethics Statement

The author, whose name appears on the title page of this work, has obtained, for the research described in this work, either:

a. human research ethics approval from the Simon Fraser University Office of Research Ethics

or

b. advance approval of the animal care protocol from the University Animal Care Committee of Simon Fraser University

or has conducted the research

c. as a co-investigator, collaborator, or research assistant in a research project approved in advance.

A copy of the approval letter has been filed with the Theses Office of the University Library at the time of submission of this thesis or project.

The original application for approval and letter of approval are filed with the relevant offices. Inquiries may be directed to those authorities.

Simon Fraser University Library
Burnaby, British Columbia, Canada

Abstract

The city of Vancouver has seen record high home prices in recent months. The housing price inflation has led to the city becoming one of the least affordable cities in the world in terms of housing. The rapid price increase has been blamed on various supply and demand side issues. This paper argues that foreign capital is playing a significant role in driving up home prices in Vancouver and proposes a series of policy options to mitigate the impact of foreign capital. Using secondary data analysis, the paper demonstrates that factors such as income, population growth, and supply of homes have not influenced home prices at a significant level. The paper provides evidence that influx of large sums of foreign capital and investment activity of High Net Worth Individuals are the primary drivers of housing prices in the city. Keeping this in mind, the policy options in the paper have been developed through substantive background research, expert interviews, jurisdictional scan and secondary data analysis. Policy options are evaluated using a criteria and measures matrix, which reflects the societal and government management objectives of effectiveness, budget impact, and stakeholder acceptance. The paper recommends using a Progressive Property Tax in conjunction with a Speculation Tax to mitigate some of the effects of foreign capital.

Keywords: Foreign Capital; Vancouver's housing market; Housing Policy; Foreign Ownership in Vancouver; Progressive Property Tax; Speculation Tax;

I dedicate this paper to my mother Jesmin Akhter, my father Ahsan Haque, and my sister Faiza Jahan. I would also like to dedicate this paper to everyone who has supported me over the years to help me through my journey. Thank you!

Acknowledgements

I would like to acknowledge my supervisor Josh Gordon for his guidance and support. I appreciate all that you have done for me. I would also like to acknowledge my classmates. Your passion and work ethic has motivated me throughout this process. The last two years have been an amazing experience thanks to each and every one of you. I would also like to acknowledge all my friends for their support and words of encouragement. And finally, I would like to acknowledge my family for all their love and sacrifice. Without your support, this would not be possible.

Table of Contents

List of Tables

List of Figures

Executive Summary

Policy Problem

The influx of foreign capital has heavily influenced the housing market in Vancouver. The rapid price inflation for homes has resulted in a disconnect between local purchasing power and the housing market. Local residents are increasingly priced out of the market. As of yet, no policy has been implemented to limit the impact of foreign capital in Vancouver's housing market, and the policy gap persists. The lack of policy intervention has resulted in home prices reaching record high levels, and has caused a housing affordability crisis in the city. The policy problem is: Vancouver's residential housing market has become unaffordable due to the influx of foreign capital and there aren't any policies in place to address this situation.

Research Objectives

The objectives of this research are to demonstrate that the foreign capital is one of the primary drivers of housing prices in the city and offer policy solutions to address it. While, there has been some academic research done on the topic specific to Vancouver, there is a lack of comprehensive study on the issue that examines the key factors determining housing prices, and isolates the issue to foreign capital. This study will provide evidence that suggests that the housing price in Vancouver is primarily being driven up by demand side factors such as foreign capital. This project will provide an understanding of the scope of the issue in the City of Vancouver and focuses on policies that can be implemented at a regional level through the provincial government in order to limit the impact of foreign capital in the city.

Methodology

Four methodologies were used to inform the development of the policy options and their analysis:

1. Secondary data analysis: Data analysis was conducted to show that other factors such as population growth, income, and housing stock played a limited role in the housing price inflation.

2. Content from academics and experts will be used in conjunction to the data analysis to demonstrate that foreign capital has been flowing into Vancouver's housing market.

3. Media Content analysis will be used to supplement the case that foreign capital is adversely impacting housing prices and affordability in the City of Vancouver.

4. Jurisdictional scan was performed to identify policy responses in other parts of the world with similar issues regarding foreign capital.

5. Expert Interviews: Interviews were conducted with experts in the fields of economics, real estate and taxation. These interviews were used to develop and inform the policy options.

Policy Options

Based on the finding from the secondary data analysis, jurisdictional scan, and expert interviews, three policy options were identified.

1. Progressive Property Tax: This tax will increase at increments along with the value of the property. The tax starts at 0.5% for homes valued at over $1 million. It increases to 1.0% for homes between $1.5 to $2.0 million dollars. 1.5% for homes between $2 million and $3 million and 2.0% for homes above that. The unique feature of the tax is that it allows local residents to credit the tax against their BC income tax. This insulates them from much of the tax hike and primarily targets foreign owners, absentee owners and owners using foreign capital.

2. Speculation Tax: This tax applies to homes that are sold within 48 months of purchase. If a property is sold within 12 months of purchase, the tax will be 10% of the value of the home. If it is sold within 24 months, the tax will be 7%. The tax will go down to 4% for homes sold within 36 months and 2% if sold within 48 months of purchase. It is designed to limit speculative transactions in the market.

3. Foreign Ownership Surtax: This tax will apply to all buyers that are not legal residents of Canada such as foreign buyers, short term visitors, and international

students. The tax surcharge will be designed to increase with the value of the home. For properties with market value below $2 million, foreign buyers will be subject to 10% tax at the point of purchase. For properties worth more than $2 million, buyers will be subject to 15% tax.

Criteria and Measures

The policy options were assessed based on three societal and government management objectives. The first objective was effectiveness, and this included measures to illustrate the policy options' ability reduce home prices in the city, and its ability to discourage the use of foreign capital. The policy options were also assessed based on their budget impact and overall stakeholder acceptance.

Recommendation

Based on the evaluation of the policy options, the Progressive Property Tax was ranked the highest followed by the Speculation Tax. In order to effectively limit the impact of foreign capital in the market, these two policies were recommended for implementation.

Chapter 1. Introduction

Foreign capital is driving up the housing prices in Vancouver and has created an unaffordable housing market for local residents. The local purchasing power does not reflect the housing prices in the city. Currently, there are no policies in place to address the affordability issues caused by foreign capital in the city. This paper will demonstrate that foreign capital is the primary driver of housing prices in Vancouver and address this policy problem by proposing a combination of Progressive Property Tax and Speculation Tax. To restate, the policy problem is that the Vancouver's housing market has become unaffordable for local residents due to the influence of foreign capital and there aren't any policies in place to address this situation.

The city of Vancouver has become one of the most desirable destinations in the world for immigrants, investors and students. The city is often ranked highly in various lists as one of the best places to live around the world (CBC , 2016). The natural beauty, coupled with high standards of living have made Vancouver a popular location for many. The city's housing market is in similar high demand among local residents and newcomers to the city are looking for housing to establish themselves in the city. Among investors, relative stability in Canada's socioeconomic and political climate has made Vancouver a safe destination for them to invest their money. Combined this with the high returns in the housing market in the last few years, no capital gains tax on primary residence, low property tax, and lack of regulation, Vancouver is attracting large sums of investment from around the world.

Demand for Vancouver homes have made the housing market the hottest in the nation. Prices in the city for single-family detached homes outranks every other city in the country by far (CBC , 2015). While demand for family homes are high, supply is limited due to geographical and land use constraints and low listings. The low supply and high demand has created a seller's market with prices reaching historical highs

(REBGV, 2016). While initial impression might suggest that a thriving housing market is beneficial for the economy, a closer inspection at the source of demand raises many questions. There has been increasing amount of evidence that the market is primarily stimulated by demand and capital from outside the country. These external demands are fueling prices that the average resident of the lower mainland cannot afford. The existing homeowners are becoming equity rich as the prices of their homes are continuing to increase. However, local buyers who are hoping to enter the market are finding themselves priced out. Essentially, foreign capital derived demand has a higher equilibrium price point compared to the local income derived demand.

Furthermore, many of these homes are being purchased purely as an investment vessel rather than for living purposes. Vacant properties are decreasing the number of available units in the city, which puts further pressure on the supply of homes. Rather than including the homes in the rental stock, many owners are choosing to leave them unoccupied or under-occupied (only occupied partially during the year) (Chan, 2015). This is a major concern for the city as it struggles to provide adequate housing for everyone. Vancouver has a housing affordability crisis and the influx of foreign capital is playing a significant role in this issue. Vancouver's affordability crisis is captured in the pretax income to housing price multiple, which currently sits at 10.8. This implies that a median house in Vancouver costs more than 10 times the median wage. This ranks Vancouver as the third least affordable city in the world in terms of housing, behind Hong Kong and Sydney (Demographia, 2015). Vancouver's housing market is in the forefront of public discourse in the region; there is growing distress as more and more people are struggling to enter the housing market.

Home ownership is part of the North American cultural identity and the current market in Vancouver is preventing a new generation from realizing this dream. Homeownership rate in Vancouver is 65.5%, which is below the overall 70% rate in British Columbia. Canada Mortgage and Housing Corporation set the threshold of up to 30% of income to measure affordability. In Vancouver, 33.5% of households exceed this threshold (Statistics Canada, 2012a). Median income in metro Vancouver is one of the lowest in the country compared to similar jurisdictions. Income in most households are not keeping up with the rising housing prices. Entry to the market requires significant wealth or large mortgages, which are vulnerable to interest rate increases.

It should be noted that Vancouver's housing affordability crisis (lack of rental stock, lack of subsidized and low rent housing etc.) goes beyond foreign capital. While acknowledging their significance, these factors are beyond the scope of this paper. However, if policymakers want to solve the overall issue of affordability, the role of foreign capital must be analyzed and addressed. Vancouver residents are getting increasingly frustrated with the housing market (Angus Reid, 2015). The call for policy interventions to cool the market is growing every day. Foreign capital has culminated into a multipronged problem for the region that includes local residents being priced out, residential properties sitting empty and speculative purchases driving up the prices.

Foreign capital is essentially having a cascading effect in the housing market. Sellers in the top tier of the market are moving to the tier below as they are soon priced out of their previous neighborhood. This drives up the prices in another region and eventually the entire market experiences rapid increases in prices (Moos & Skaburkis, 2010). If the region's overall housing affordability crisis persists, it will have significant consequences on the long-term economic and social prosperity of Vancouver. The policies presented in this paper will not solve the overall affordability issue; rather it will promote more sustainable investment in the region that is beneficial to all parties and the overall health of the region.

This paper will demonstrate that foreign capital has impacted the rising prices in Vancouver's real estate market and how sophisticated policy tools can be used to dampen the market to reign in the prices. The paper will consist of a background section outlining critical information relevant to understanding the broader issue such as the political debate, institutional issues, and housing prices in Vancouver. A methodology section is also included that highlights the use of secondary data, expert interviews and a jurisdictional scan to inform the overall analysis. The analysis of the policy problem section looks at various factors such as housing stock, population growth, income, and foreign capital and their impact on the housing prices in the city. A media content analysis is included to supplement these findings. The report will argue that policies must target the demand side of the housing market rather than the supply side since core of the issue regarding price inflation lies on the demand side. Without policy intervention, a significant amount of foreign capital will continue to flow into Vancouver's housing market and house prices will continue to rise. The paper explores three primary policy options: 1) Progressive Property Tax, 2) Speculation Tax, 3) Foreign Buyer Surtax. These policies were evaluated based on criteria and measures that examine the options in terms of effectiveness, political feasibility, stakeholder acceptability and budgetary impact. The recommended policy option is a combination of Progressive Property Tax with some form of a Speculation Tax.

Chapter 2. Background

2.1. Housing Price in Vancouver

The rapid increase in housing prices in Vancouver has been described as a crisis by many. Most major cities in Canada are experiencing some increases in prices but Vancouver is unique in terms of the magnitude of the increase. The city has seen record high home prices according to data released by Real Estate Board of Greater Vancouver (REBGV). The graph below depicts the rise in housing prices among different dwelling types from January 2010 to January 2016.

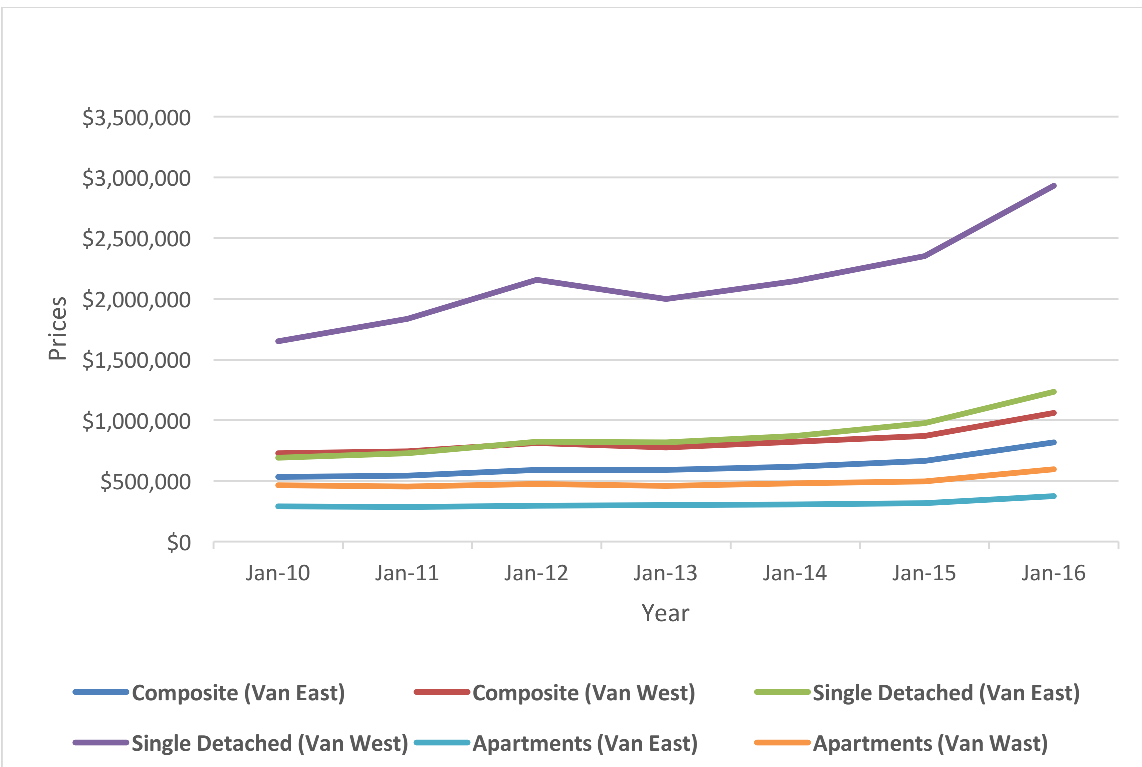

Figure 2-1. Vancouver Housing Prices by Dwelling Type (2010-2016)
Data Source: Metro Vancouver Housing Data Book 2015

The data indicates that single-family detached homes are the most expensive homes in the city. In particular, the west end of the city has the highest prices. This neighbourhood has been historically more expensive than other parts of the city, but the change in prices have been more rapid in recent months. Between 2006 and 2016, prices for single detached homes in the area has gone up by 165.40%. Since 2011, the prices are up by 68.80%. These increases are higher than all other housing categories in all of Vancouver (REBGV, 2016).

The REBGV's benchmark price, which looks at a typical home in the area, puts single detached homes in Vancouver west in January 2016 at $2.9 million dollars. This is an astonishing increase of $578,238 from January 2015. For single-family detached homes at Vancouver's east side, prices have gone up by $259,297 in 2015, from $974,802 to $1,234,100 (REBGV, 2016). In the last ten years, prices for single-family detached homes have gone up by 139.90% in this area. For apartment units, prices in the west side went up by 20.50% and 18.20% in the east side. This reflects an increase of $101,939 and $57,556 respectively. Over the last ten years, prices for apartments went up by 6.90% in the east side and 4.50% on the west side. If the numbers for 2015 are aggregated for all residential properties, then the benchmark price falls to $819,400 in Vancouver east and $1,058,600 for houses in the west side. This reflects a 23.30% and 21.80% change respectively in 2015 (REBGV, 2016).

To provide better context to the price increases in 2015, the changes in price in the years prior must be broken down first. The price increase in 2015 is the highest in the last 6 years. Single-family homes in the city encountered the highest price increase in terms of dollar amount. But in terms of percentage, all housing types saw similar increases in 2015. Apartments in Vancouver east saw the least amount of increase with 18.20% while single family detached in the east end saw the highest increase with 26.60% (REBGV, 2016).

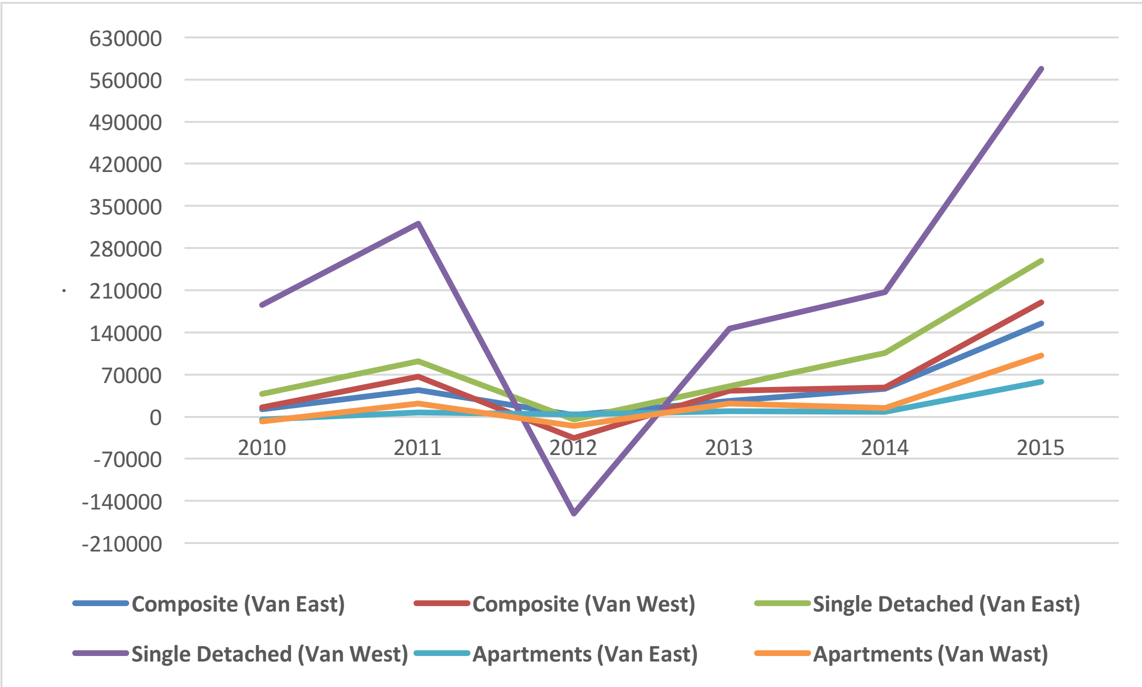

Figure 2-2. Net Change in Price
Data Source: Metro Vancouver Housing Data Book 2015

Table 2-1. Net Change in Price

Type	Benchmark Price	1 Year Change	3 Year Change	5 Year Change	10 Year Change
Composite (Van East)	$819,400.00	23.30%	38.30%	50.10%	106.90%
Composite (Van West)	$1,058,600.00	21.80%	36.20%	41.90%	92.50%
Single Detached (Van East)	$1,234,100.00	26.60%	50.80%	68.80%	139.90%
Single Detached (Van West)	$2,928,800.00	24.60%	46.60%	59.40%	165.40%
Apartments (Van East)	$373,800.00	18.20%	24.80%	29.60%	73.40%
Apartments (Van West)	$599,200.00	20.50%	30.20%	31.90%	65.40%

Data Source: Metro Vancouver Housing Data Book 2015.

These numbers provide two insights. In terms of price increases in recent times, single-family detached homes are not unique or outliers. It also indicates that the price increases are not exclusive to one type of home or a particular location in the city; the price increase here is not just due to limited supply. In the Housing Stock in Metro Vancouver section, it will be shown that single-family detached homes are the only type of dwelling where supply has not grown over the years. However, the numbers clearly demonstrate that the large price increases are widespread among all types of homes in the city. Historical prices in the region suggest that this level of price increases are rare. As the population growth and housing stock sections indicate below, there has not been a significant increase in population or a supply shock that would impact the prices at this level.

A recent report by real estate consultant firm Knight-Frank reveals that Vancouver has been leading the world in price increases for prime residential properties. Prime real estate is defined as the top 5% of the housing market (Everett-Allen, 2015). The overall breakdown can be seen below.

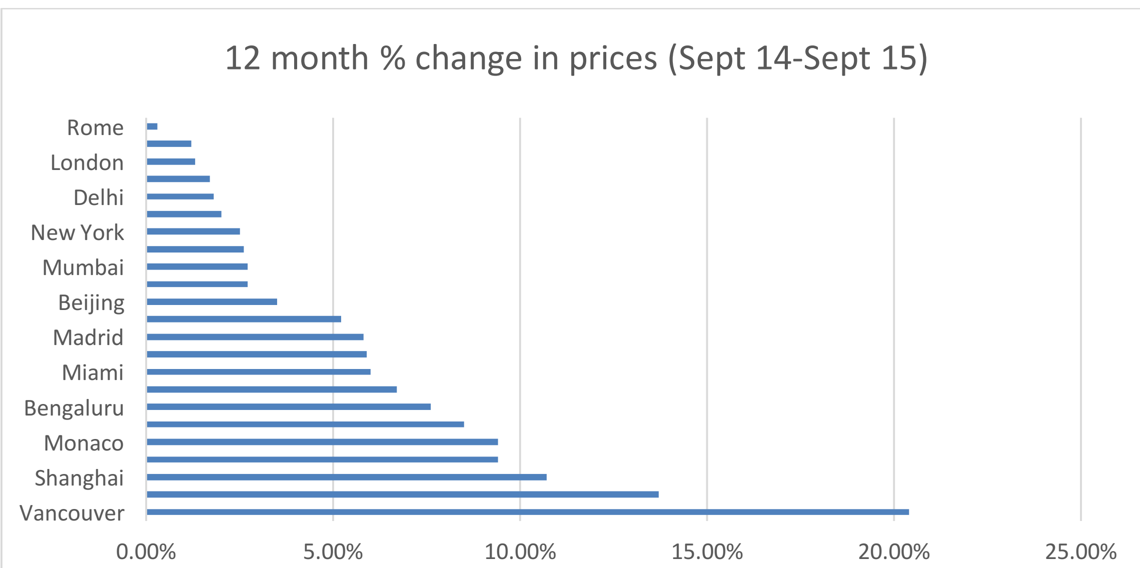

Figure 2-3. Prime Price Performance by City
Source: Prime Global Cities Index Quarter 3 – Knight and Frank

During the 12-month period from September 2014, prices for prime real estate in Vancouver has risen by 20.1%, which far outranks second place Sydney, where prices have gone up by 13.7%. The report states that local and foreign demand are contributing to the rising prices. According to the researcher, the slowdown in the Chinese economy means wealth will continue to flow into property markets in Canada, U.K, U.S.A and Australia (Everett-Allen, 2015)

2.2. Political Debate

The housing issue is in the forefront of both public and political discourse and unsurprisingly, there is no consensus on how to address it. The major institutional bodies that are relevant to this conversation are the three levels of government. However, provincial government and the municipal government play a bigger role than the federal government in the debate. While the City of Vancouver is primarily being affected by the housing price inflation, the province holds much of the authority over policy decisions that can mitigate the situation. However, the respective leaders of the two governments are not on the same page in terms of a policy decision to address the issue.

The mayor of Vancouver, Gregor Robertson, has stated, “There is nothing I hear more about from Vancouver residents than the urgent challenge of housing affordability” (Luvick, 2016). He also mentions, “We do need far better federal and provincial tracking of data on international investment and absentee ownership” (Luvick, 2016). The severity of the situation is captured in his response to The Tyee where he said, "The conditions and the context keep getting tougher and tougher in Vancouver as the city gets more and more expensive and more desirable to people all over the world to invest in and move into. We're basically at a breaking point where we need interventions in the market to ensure that people who live and work and grow up here in Vancouver have the opportunity to stay in the city and to keep being part of it and contributing” (Ball, 2015). These statements by the Mayor demonstrate that the city recognizes that its residents can no longer afford homes here. However, despite multiple calls from the mayor for action, there are major disagreements regarding the type of intervention required and the source of the problem.

Premier Christy Clark of British Columbia acknowledges that the prices in the city are high but does not believe that there needs to be an intervention from the government. Both the mayor and the premier agree that more data needs to collected.

She mentioned, “One of the problems we’ve had in trying to understand how we can help and support people and make housing more affordable for people is just understanding what’s happening out there in the market, I think we all need more information” (Shaw, 2015). The mayor believes that housing prices are being driven up by speculative purchases and as such, the province should institute a speculation tax to “take some of the profit out of flipping and speculation. This is a business activity that's taking place every day here in Vancouver where there's a lot of profit, and it's an option to transfer some of that profit so people can afford to live in the city” (Ball, 2015). The premier believes that such a tax will result in homeowners losing significant equity in their homes, resulting in high mortgages against houses that are worth less (Shaw, 2015). The province has the taxing power in this situation, and therefore the city cannot impose a speculation tax without the province being on board.

The mayor also proposed a luxury tax as a source for additional tax revenue that will be earmarked for investment in affordable housing. He described, “We've also been talking about a luxury tax and increasing the property transfer tax on properties of very high value. The number floated around was $4 million and up. There was 26 per cent growth in the activity of $4 million-plus homes over the past year. A small portion of that coming out in additional tax is another source of revenue for affordable housing, whether that's for new home buyers, young people being able to get into the market, or rent subsidies for people on lower income” (Ball, 2015). The Premier once again dismissed the idea of a tax increase by stating that it will have adverse effect on the market value of homes (Shaw, 2015).

A more contentious issue in this debate revolves around the source of the problem. Both the mayor and the premier are reluctant to assume that the market is heavily influenced by the foreign market. On the subject of foreign capital entering Vancouver, the mayor has said, “Oh yes, Vancouver's on the map. We're one of the cities in the world that's most highly desired to live in, to visit, to invest in.” (Ball, 2015). However, regarding foreign investment, the mayor isn’t keen on policy intervention quite yet. He has said, “Other countries and cities have taken much more dramatic actions -- certainly Hong Kong, Singapore, cities in France and Australia -- there's much more intervention with respect to foreign ownership. In Canada, generally, we've had a much more open approach to immigration and offshore investment. But let's understand what the numbers are and what the implications are and make decisions based on the facts and the evidence and make sure that we're focused, at the core of this, on making sure people can live here in our city" (Ball, 2015).

Premier Clark dismissed the role of foreign ownership by stating that these investors are usually concentrated at the top end of the market with minimal impact on the rest of the market and therefore, there is no justification for a policy intervention that might adversely impact the equity of existing homeowners. She does recognize that restricting foreign investment will assist new home buyers hoping to enter the market which she argues will be "good for first-time home buyers but not for anybody who is depending on the equity in their home to maybe get a loan or use that to finance some other projects" (Azpiri, 2015).

Former Canadian ambassador to China, David Mulroney, believes that foreign investment is playing a significant role in the overall housing affordability issue in Vancouver. "Mainland Chinese buyers are really driving markets from Sydney through New York to London, and Canadian cities like Vancouver — particularly Vancouver — are no exception" (CBC, 2015). He calls for innovative policies that ensure local residents have access to the market without compromising the overall investment structure in the city. The current chief economist of BCREA, Cameron Muir believes that the role of foreign investment in Vancouver's market is overstated in the media. Muir states that "if foreign investment in housing disappeared today, the average household in Vancouver wouldn't notice a thing. You would likely see some softness at the high end of the market for a while, but I don't see it having any profound effect. If we had some evidence that foreign investors were having a significant impact, I'd be all over that. But to date there isn't a single outlier that we can point to" (Gold, 2015). Premier Clark often refers to the BCREA's stance on the issue to justify the lack of intervention at a provincial level.

It is evident from these statements that the two major political stakeholders are not in agreement regarding what needs to be done or the source of the problem. While the call for more data is echoed by both levels of government, the need for immediate intervention as expressed by the mayor is not shared by the Premier. Former BC cabinet minister and co-chair of Mayor Robertson's task force on affordable housing believes that "the city cannot do much without the help of the provincial or federal government, and I don't think they will step into this willingly, for what they will see as a very localized problem" (Yaffe, 2015). However former Prime Minister Stephen Harper and current Prime Minister Justin Trudeau have both advised the Canada Mortgage and Housing Corporation to collect better data in order to determine the correct course of action. The former Prime Minister suggested that he would be open to the idea of limiting foreign home buyers if the data indicated it was an issue. Prime Minister Trudeau has expressed that he is cautious about restricting foreign ownership without proper data, and the country needs foreign investment in businesses and resource sectors to keep Canada's economy growing. He urges for a balanced approach, without detailing any specific policy platforms (Logan, 2015).

2.3. British Columbia and Canadian Response

There has been very little done in terms of policy interventions that directly deal with foreign capital in the country and Vancouver. For the most part, jurisdiction with this lies with the provincial and federal governments. The federal government has promised better collection of data on the issue. The Canada Mortgage and Housing Corporation is currently working on collecting better data on foreign ownership in the Canadian housing market as a whole; the complete findings from this is yet to be released (McMahon, 2016). Some data has been released so far on foreign ownership rates among condo units. However, this does very little to inform the broader topic around foreign capital.

Similar to the federal government, the British Columbian government has also promised to collect better data on the issue. The government will also require potential buyers in the province to disclose their country of origins if they are not permanent residents or citizens of Canada (Proctor, 2016). In March 2016, the City of Vancouver published a report that details the number of Vacant homes in the city. The report does not indicate any significant changes in the level of vacant properties in the city over the last ten years. Citing the report, Mayor Robertson told the city council that these vacant properties could increase supply of housing market and generate revenue for the owners if they were put in the market. Once again, due to the lack of jurisdiction over the issue, the city cannot implement policy tools to tackle the problem (Kane, 2016).

The overall response so far has been political rhetoric and half measures that will have very little impact on the actual issue. The only government authority asking for market interventions does not have the jurisdiction to do so. The Premier and the Prime Minister are both reluctant to interfere in the housing market. There does not seem to be any policy interventions in the horizon.

Chapter 3. Methodology and Limitations

3.1. Methodology

The report will include secondary data analysis on Vancouver's housing stock, growth in population, increase in home prices and compare these statistics to demonstrate any correlation between them. The overall affordability issue will be established through this data analysis. Content from academics and experts will be used in conjunction to the data analysis to demonstrate that foreign capital has been flowing into Vancouver's housing market and it is a contributing factor to the rising prices. Furthermore, media content analysis will be used to supplement the case that foreign capital is adversely impacting housing prices and affordability in the City of Vancouver. Primary sources of data are the Canada Mortgage and Housing Agency, Statistics Canada, Real Estate Boards, BC Stats, City of Vancouver Stats, and publications from banks, think tanks and other organizations.

Interviews with various experts in the field of economics, policy making, and housing have been conducted to gain a better understanding of the issue and to inform the development of policy options. A jurisdictional scan is included to identify policy options implemented in other parts of world that are facing similar issues. Government and media reports from these regions have been used to conduct this scan. A set of policy options have been developed using the findings of this paper and other similar reports. The policy options are evaluated using a criteria and measures matrix to determine the best course of action to address the role of foreign capital in Vancouver. Analysis of these options are part of the evaluation process. Finally, a recommended policy approach is identified in this paper.

3.2. Limitations

The lack of comprehensive data on real estate transactions in the province poses as the biggest challenge to this project. As such, the report has to rely heavily on secondary data analysis, expert opinions, media content and inferred evidence to build its case. The exact extent of the problem is difficult to gauge due to lack of data. Despite these shortcomings, the report will present a strong case that indicates that foreign capital has significant influence in Vancouver’s housing market. Furthermore, housing unaffordability in the city is a much larger problem and foreign capital is just one of the dimensions. This report is targeted towards finding appropriate policy solutions to minimize the impact of foreign capital on the overall housing affordability issue. The report does not attempt to provide solutions to any of the other housing affordability issues.

Chapter 4. Analysis of the Policy Problem

4.1. Housing stock in Metro Vancouver

In order to determine the factors that are driving up the housing price in Vancouver, the overall stock of housing in the region must be inspected. Basic economic theory suggests that shortages in supply will lead to an increase in price. Vancouver is geographically unique as the city is locked in by mountains, the Pacific Ocean and protected agricultural land reserves, which limits the overall amount of land available for development. Despite these constraints, the city has seen modest growth in its housing stock. According to Metro Vancouver's "Housing Data Book 2015", the overall stock of private housing in the region grew by 9.8% between 2006 and 2011. Looking further back, between 1996 and 2011, the region's housing inventory grew by 28.6%. For Vancouver, the growth rate between 1996 and 2011 is 21.1%. In absolute numbers, total households in the city grew from 218,540 in 1996 to 264,570 in 2011 (Metro Vancouver Housing Data book, 2015).

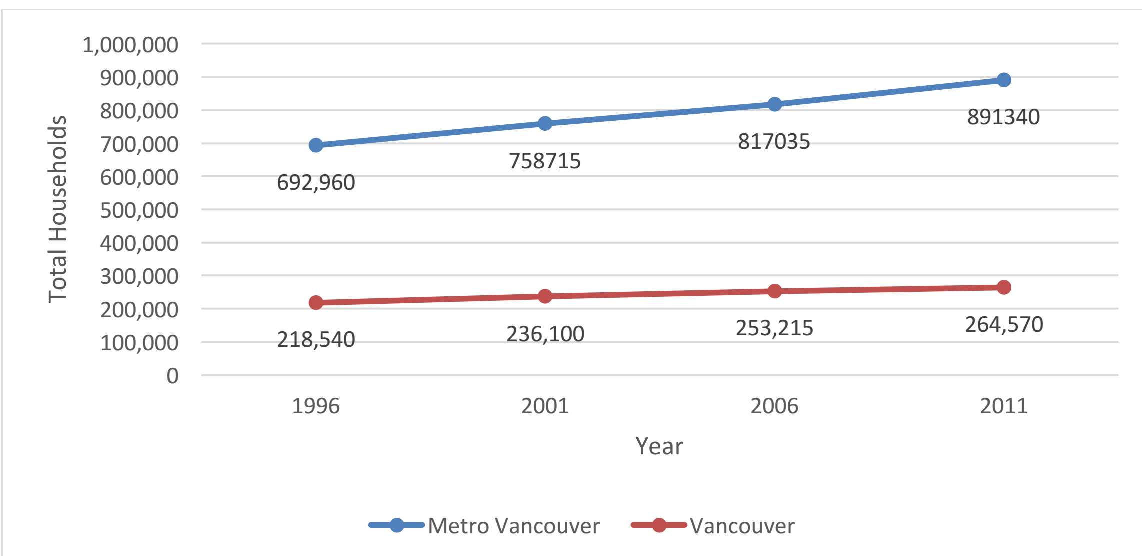

Figure 4-1. Housing Inventory Metro Vancouver
Source: Metro Vancouver Housing Data Book

The proportion of homes in Metro Vancouver that can be classified as single detached homes has decreased from 50% of all dwellings in 1991, to 34% in 2011. In absolute numbers, the stock of single detached homes in the region in 1991 was 302,120 homes as compared to 301,140 homes in 2011. Over the same period, the number of apartments have grown significantly, representing over 40% of all dwellings (Metro Vancouver Housing data book, 2015). The figure below shows that the stock of single detached homes in terms of real numbers have stayed relatively stable over the years, but in terms of percentage, apartments have increased their share. This indicates that much of the housing stock that has been added since 1991 has either been apartments or non single detached ground-oriented homes.

In the City of Vancouver, single detached homes in 2011 represented only 18% of all dwellings, while apartments represented 60%. This is the lowest proportion among all Metro Vancouver municipalities. Since 1996, the total number of single family detached homes in the city has been going down.

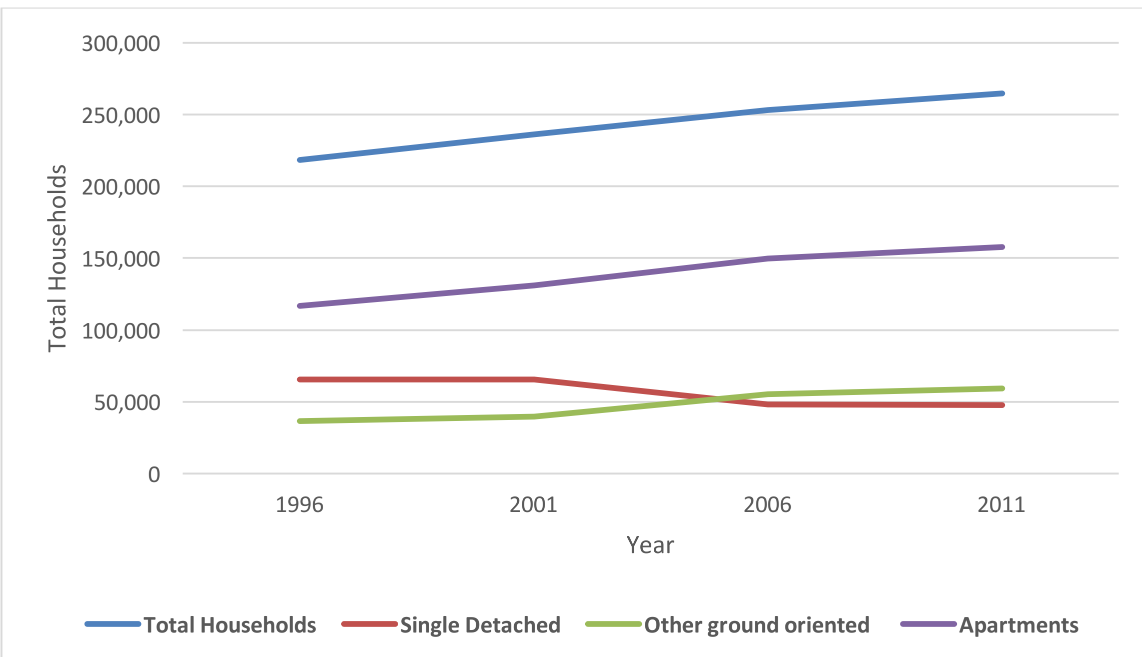

Figure 4-2. City of Vancouver Housing Inventory
Source: Statistics Canada and Metro Vancouver Housing Data book

In 1996, the city had 65,415 single detached homes. However, by 2011, this number was reduced to 47,535 homes, which represents a reduction of 27%. Between

2006 and 2011, there was a small reduction of 1.75%. In the meantime, the stock for every other type of dwelling in the city increased in the same time period (Metro Vancouver Housing Data Book, 2015). Some of the reduction in single family homes can be attributed to demolitions that took place in the city.

Housing starts is an indicator that looks at the number of new private homes that are under construction. Between 2013 and 2014, there were 2,404 housing starts in the single detached category in Vancouver. In other words, 21% of the 11,452 housing starts during this time period are single family detached homes while the rest of them are apartments. In terms of new housing completions, apartments once again lead the pack, followed by single detached homes (Metro Vancouver Housing Data Book,2015). The number of completions for single family homes have been going up in recent years, with 2012, 2013, and 2014 all having higher number of completions compared to the individual years between 2005 and 2010.

As mentioned earlier, despite fluctuations, the total number of single family detached homes in the region has not grown over the years. Between demolitions and new housing starts, along with limited availability of land, the stock of single family detached home has remained relatively stable. However, the total housing stock in Vancouver has been rising thanks to large number of new apartments and condominiums being built. A single apartment or condominium building adds multiple units to the housing stock and the limited availability of land has definitely played a big role in the growth of condominiums and the stagnation of single family homes. From this simple analysis, it might seem that lack of supply for single family homes is the key driving factor for rising prices in this category. Indeed, some the price increase should be attributed to the supply shortages. However, there has not been any significant supply shocks in the last few years for single family homes, and the number of completions for this type of home has been up as well. Much of the spike in prices in recent years cannot be due to supply side shortages as there has not been any major supply side changes. On top of that, prices for homes have been up for all types of homes in the city, despite the stock for all other dwellings growing over the years. This indicates that the supply side is not the issue and the most likely source of price increase lies on the demand side.

4.2. Population Growth

In order to understand if the growth in housing stock in the city is sufficient enough, the population growth in Vancouver must be considered. Much like the other major Canadian cities, Vancouver is a popular destination for many newcomers to the country. There is also significant migration to the city from within Canada. Between 2001 and 2015, the population in the city grew by 13.5%. In other words, the population grew by 77,266 from 571,342 to 648,608 individuals (BC Statistics, 2015). The housing stock during the same time period grew by 18.7%. This is an increase of 44,129 units from 236,100 units to 280,229 units (Metro Vancouver Housing Data Book, 2015).

A simple analysis of these statistics reveal that the growth in housing stock has outpaced the growth in population. It is a safe assumption that many of these units' house more than one person. In 2001, there were 0.41 units of housing for each resident of the city, while in 2015 it was 0.43. Families and households in the city grew by 3.9% between 2006 and 2011 (Statistics Canada, 2012b). Demand from a larger number of families and households in the city could influence prices, but the growth among these cohorts are not large enough to drive up prices at this magnitude. Overall, if all other factors are held constant, population growth alone should not be affecting the prices of homes in Vancouver as housing stock is growing at a faster rate than population.

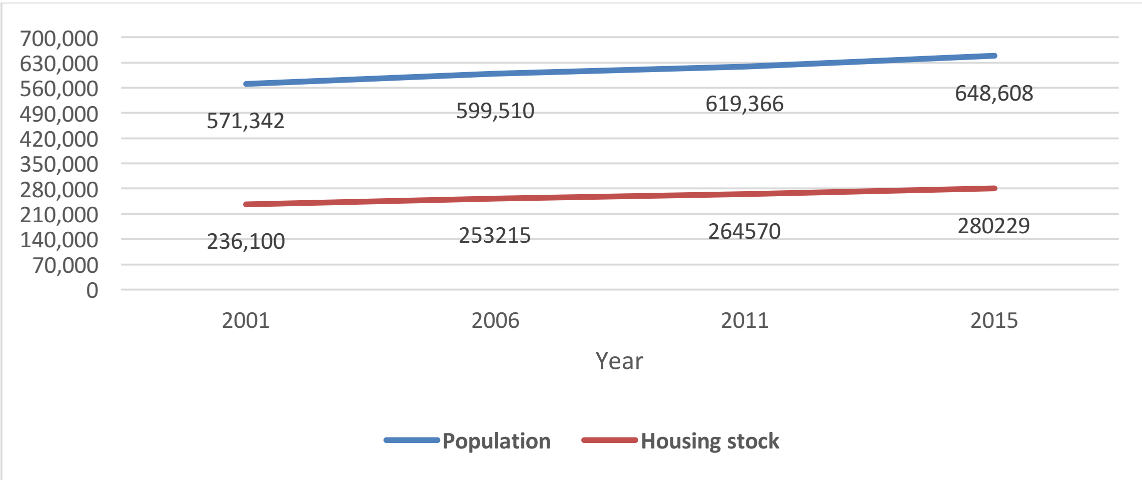

Figure 4-3. Vancouver Housing Stock and Population
Source: Statistics Canada and Metro Vancouver Housing Data Book

4.3. Is Vancouver Unique?

The Home Price Index (HPI) used by the REBGV and Toronto Real Estate Board (TREB) measures the real price changes in housing. In 2015, prices for single family detached homes in Toronto grew by 11.29% compared to Vancouver's 25.60% increase. The benchmark price in the city for these homes are $876,300 (REBGV, 2015). This is lower than similar homes in both the west and east side of Vancouver. The combined average for single detached homes in Vancouver is $2,081,450. Prices for apartments in Toronto went up by 4.88% compared to the 19.5% increase in Vancouver during 2015. The benchmark composite price in Toronto in January 2016 is $617,100 which is lower than Vancouver benchmark price of $939,000 (REBGV, 2015). The growth in price in Vancouver is significantly higher in every aspect compared to Canada's largest city and every other major city in the country. The graph below compares the changes in benchmark prices in Canada in 2015. The Metro Vancouver region has a higher change than all other regions in the country.

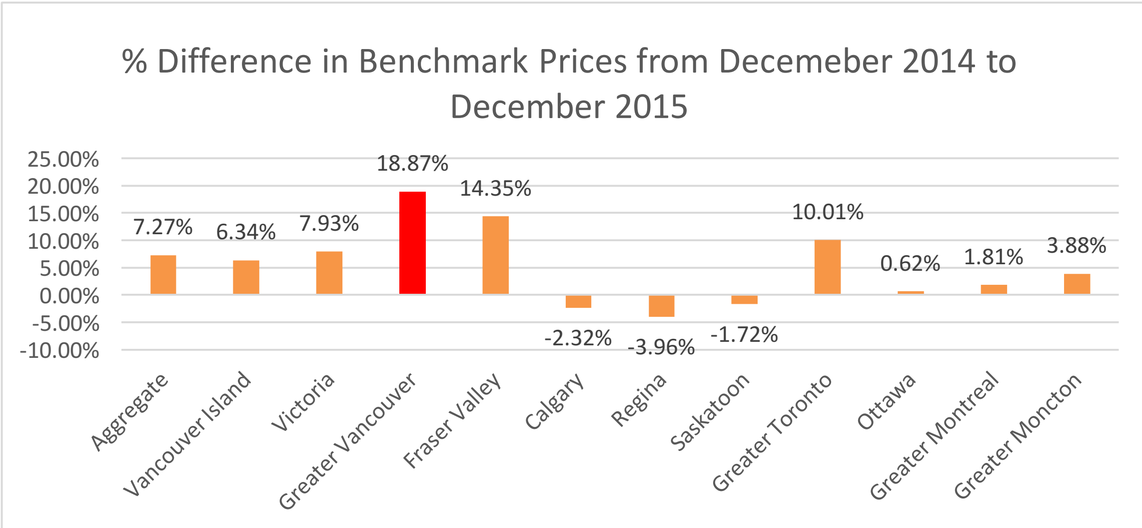

Figure 4-4. Change in Benchmark Prices across Canada between Dec 2014 to December 2015

Source: Real Estate Board of Greater Vancouver

4.4. Seller's Market

The analysis so far demonstrates that Vancouver's housing prices are extremely high and the prices are increasing faster than anywhere else in the country. Despite the high prices, the returns in the housing market is luring in buyers at record levels. In fact, the REBGV reports that "2015 home sales were the highest annual total in REBGV history (REBGV, 2015). Despite the high demand, the number of homes listed for sale ranked 5th in the last ten years. For 11 months in 2015, the sales-to-active listings in Metro Vancouver exceeded 25%, creating the perfect conditions for a seller's market. Analysts estimate that ratio above 20% will have upward pressure on prices while ratio below 12% will have the opposite effect. Darcy McLeod, REBGV president said, "Home sales are more than one-third above what's typical for this time of year yet the supply of homes for sale is the lowest we've seen in five years. This activity has created favourable market conditions for anyone considering selling their home today" (REBGV, 2015).

In the east side of Vancouver, listings for detached homes were down by 17.1% and listings for apartments were down by 20% in October 2015, compared to a year ago. On the west side, listings for detached homes were down by 30.4% and apartment listings were down by 17.6% in the same one-year time frame. The CMHC has released a report that indicates that Toronto is showing strong evidence of problematic conditions based on overvaluation and surge in prices. Vancouver however is showing weak evidence of problematic conditions but there is moderate evidence that the market is overvalued due to strong price growth (CMHC, 2015). CMHC indicates that higher number of listings in Vancouver is helping meet demand but this report contradicts REBGV's findings. While many homeowners are cashing in on their equity wealth to capitalize on the high returns, there are many who are choosing to not sell for various reasons. These reasons could vary from not wanting to move, sentimental attachments to homes, waiting for even higher prices or the fear of not being able to buy back into the market.

A report published by RBC indicates that "the fact that Vancouver's affordability readings approach all-time highs for any market in Canada — albeit more so for single detached homes than condos — exerts little restraining effect on homebuyer demand at this stage. Given the current high degree of tightness in the market, further price acceleration and affordability deterioration are likely in the near future" (RBC Economics, 2015). In essence, the number of buyers far exceed number of sellers as it seems a record number of people want to buy homes in Vancouver. Since the number of sellers are low, it can be assumed that a lot of the demand does not derive from existing owners who are selling their homes and moving into a different home. Either the demand is coming from new entrants in the market or from sources outside the city. But as the next section indicates, the income in the city does not support the argument that demand is coming from domestic new entrants. Vancouver does not have an income base that can generate this many new buyers into the market.

4.5. Income in Vancouver

While Vancouver's housing market might reflect a world class city, the income in the city indicates otherwise. According to the National Household Survey in 2010, the median income for an individual in the city was $27,815. The median household income in 2010 was $56,113 or $50,116 after taxes. The median household income in Metro Vancouver is slightly higher at $63,347 or $56,660 after taxes in 2010 (Statistics Canada, 2013). According to Andy Yan, “In a ranking of individual incomes in the 10 largest Canadian cities, Vancouver residents aged 25--55 with a bachelor's degree scored 10th and last, with incomes only 65% of those in top-ranked Toronto” (Yan, 2015).

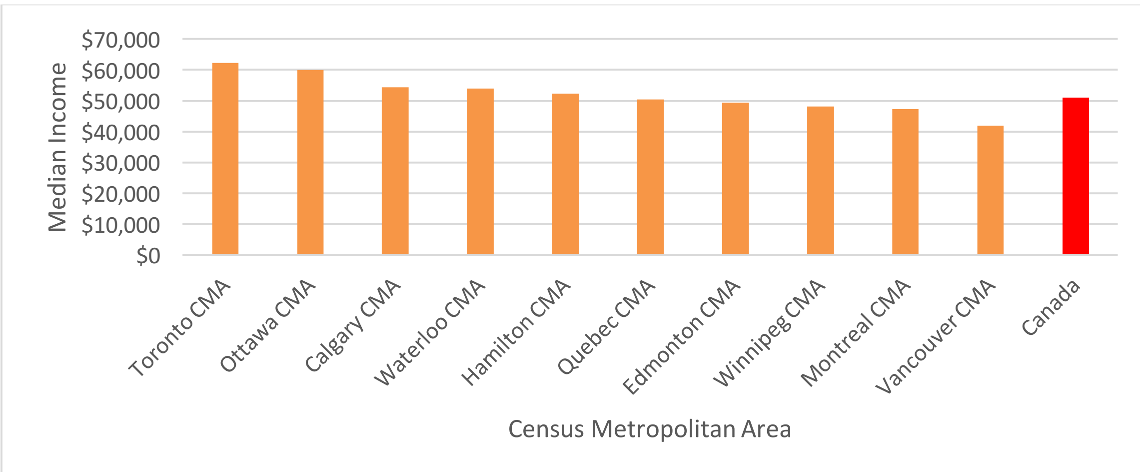

Figure 4-5. Median Total Income for 25-55 Year Olds with Bachelor Degrees in Canada’s 10 Largest Metropolitan Areas (2011)
Source: Statistics Canada, National Household Survey 2011

A VanCity report on the potential labour exodus happening in the city cites that between 2001 and 2014, average wages increased 36% while home values rose by 211% in the City of Vancouver (VanCity. 2015). Between 2006 and 2010, the income in the city went from $47,299 to $56,113 or an increase of 18.6% but the home prices in the city went up by 33.5% in the same time frame. In other words, prices of homes have been going up almost twice as fast as income. A breakdown of income by family type shows that there is significant disparity in income depending on the cohort someone falls in. Median income for couples in 2012 was over $70,000 but for lone parents, it fell below $40,000 (Statistics Canada, 2012). The change in median income has not been substantial enough in any cohort to keep up with the increase in housing prices.

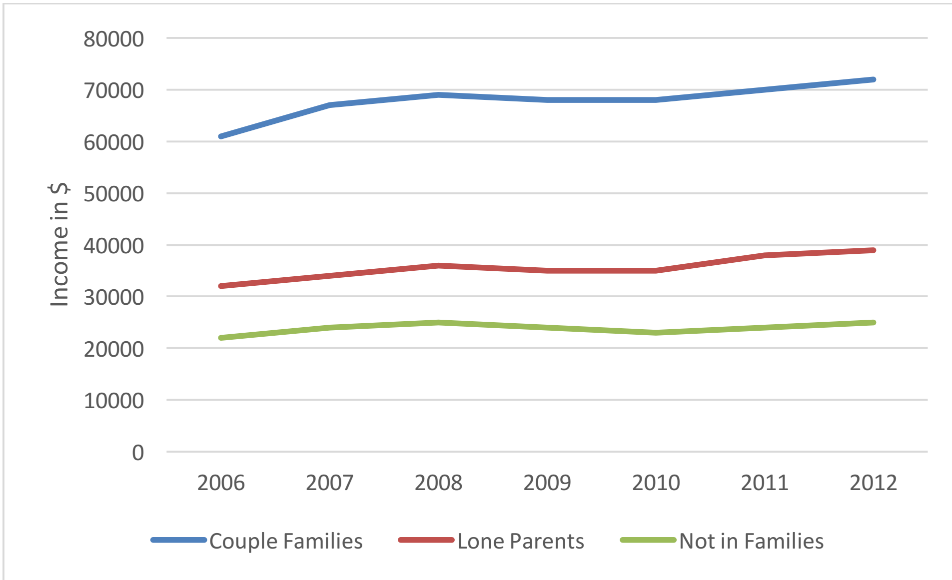

Figure 4-6. Median Total Income by Family Type, Vancouver Tax Filers
Source: Statistics Canada's T1 family file, annual estimates for individuals and families

Figure 4-7. Change in Vancouver Income in terms of percentage
Source: Statistics Canada's T1 family file, annual estimates for individuals and families

Vancouver's relatively lower income and high housing prices has led to the city being one of the least affordable cities in the world. In the 12th Annual Demographia International Housing Affordability Survey, Vancouver ranked as the third least affordable city behind Hong Kong and Sydney. The survey ranks these cities based on their Median Multiple, which is an indicator of affordability measured by dividing the median house price by median household income. A multiple above 3.0 is considered unaffordable, while anything above 5.0 is considered severely unaffordable. Vancouver had a multiple of 10.8 in 2015, signifying a severe affordability problem in the city. This is an increase from 10.6 in 2014 (Demographia, 2015). The survey also indicates that Vancouver is at risk for a housing price correction due to a real estate bubble, placing the city as the fourth most vulnerable in the world in that category. Vancouver far outranks other cities in Canada when it comes to the median multiple. Toronto is the second least affordable city in the country with a multiple of 6.7 (Demographia, 2015). The figure below tracks the median multiple across Canadian cities in 2015. While some of the other cities in the country are considered unaffordable, the degree of severity of the problem in Vancouver is significantly higher.

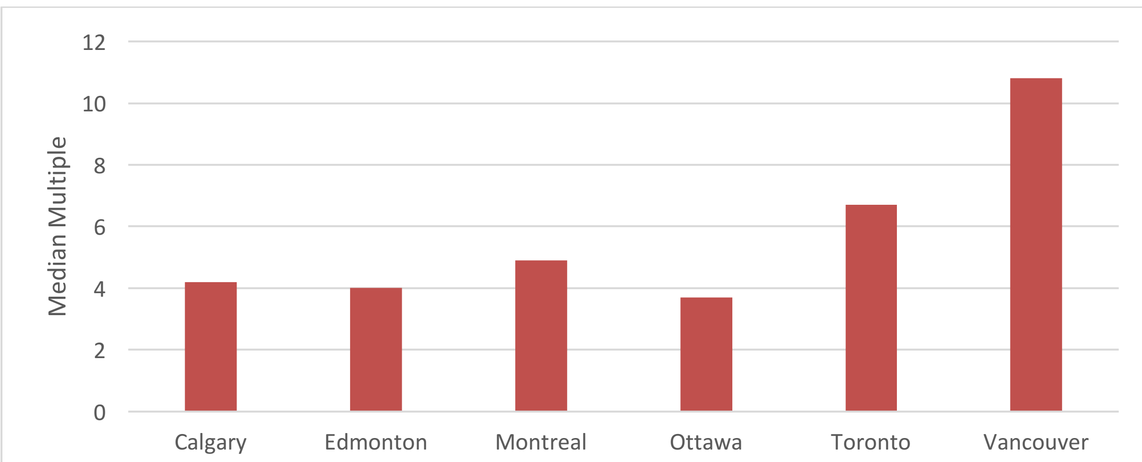

Figure 4-8. Median Multiple in Major Canadian Cities
Source: Demographia International Housing Survey 2015

Royal Bank of Canada measures affordability by using the proportion of median pre-tax household income that would be required to service the cost of mortgage payments (principal and interest), property taxes, and utilities for different types of dwellings at the going market prices (RBC Economics, 2016). The higher the measure, the more difficult it is to own a home in the region. The figure below shows Vancouver’s affordability measure from 1985 to 2015:

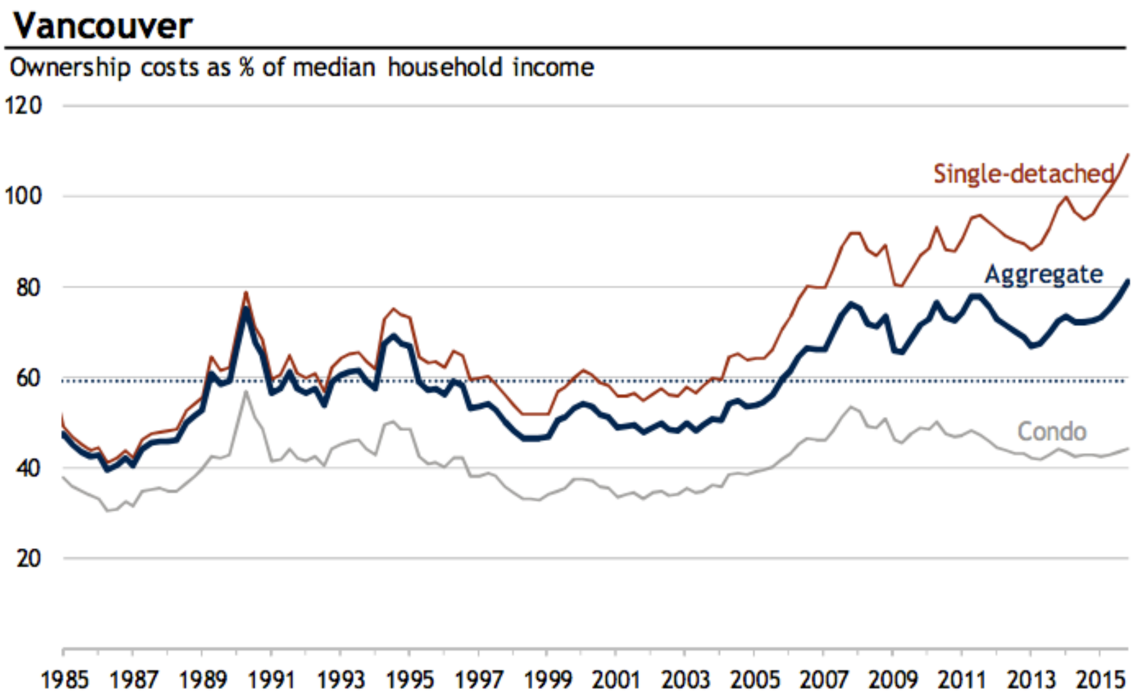

Figure 4-9. Vancouver Housing Affordability Measure Vancouver
Source: Housing Trends and Affordability, Royal Bank of Canada, 2016

For a single family detached home in Vancouver, ownership costs 109.0% of an average household's pre tax income (RBC Economics, 2016). This is an astonishingly high number that exceeds all other cities in Canada. For comparison, in second place Toronto, a similar home costs 71.4% of an average household income. Given the income in the city, housing in Vancouver is simply not affordable at its current price. The chart below compares Vancouver's affordability measure with other major cities in the country using the RBC measure.

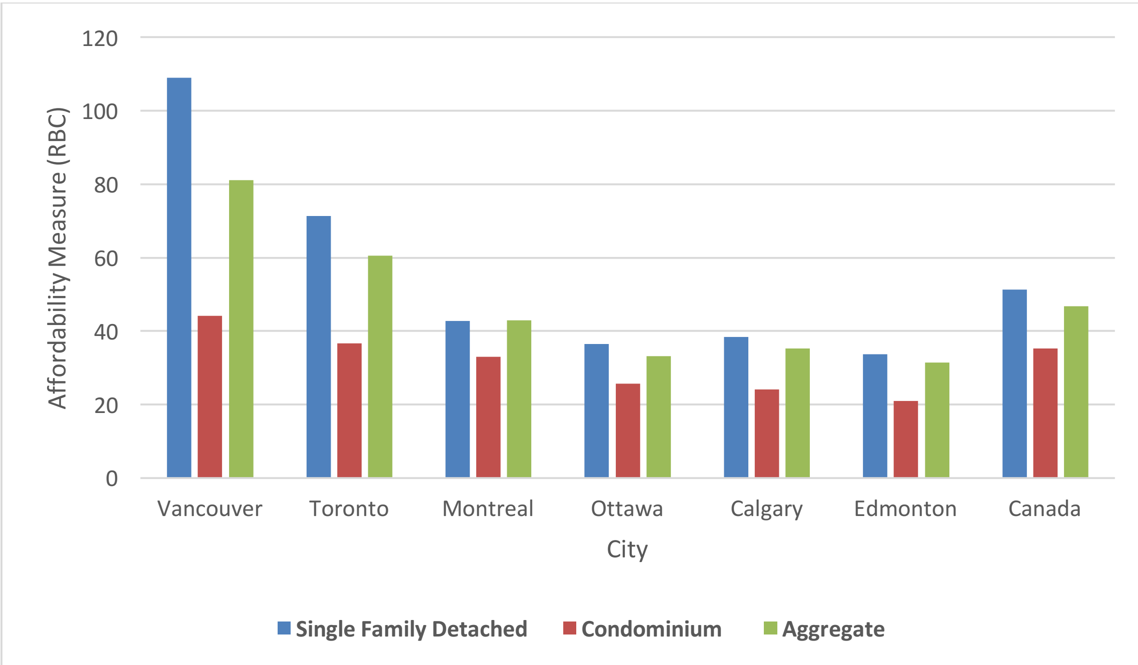

Table 4-1. Housing Affordability Measures 2016
Source: Housing Trends and Affordability, Royal Bank of Canada, 2016

The data here indicates that the increase in price is not due to an income effect in Vancouver as there hasn't been any significant rise in income in the region. The large amount of demand for homes in Vancouver that was mentioned in the previous section is either driven by accumulated wealth or is stemming from outside the city since the income is clearly not sufficient to sustain this level of increase.

4.6. High Net Worth Individuals

Major cities that attract trade and immigrants are often referred to as gateway cities (Hiller, 2007). These cities tend to have multicultural communities that play an enormous role in trade, which allows gateway cities to enhance economic globalization (Lin,1998). Vancouver is one of these gateway cities and there is clear "evidence of internationalization of real estate market" in the city (Ley,2015). In the last decade, aligned with greater liberalization of their economy, China has emerged as a major player in the global investment market. Investments stemming from China have risen from US $1 trillion in 2004 to $6.4 trillion in 2015, and a projected $ 18 trillion in 2020 (Hanemann & Houtari, 2015). A slowdown in the Chinese economy has further accelerated the capital coming out of China. In 2015, China's capital outflow was an estimated US $1 trillion. Chinese investors are leaving the country to find safer destinations for their money as they lose confidence in People's Bank of China (Bloomberg,2016).

David Ley argues that Canada's Business Immigration Program is the primary vehicle for bringing High Net Worth Individuals (HNWIs) from China to Canada (Ley,2015). Investors coming to Canada have to lend out $800,000 to the government, interest free for a five-year period and serves as a lucrative source of money for the government. Knight Frank's Wealth Report outlines investment preferences for 190,000 HNWIs across the world with each having a net worth over US $30 million (Knight Frank, 2016). Residential properties are the most popular sector among HNWIs, with 81% of wealth advisors indicating their clients being interested in them. On average, 32% of HNWIs have residential properties as part of their investment portfolio. According to Savills real estate consultancy, HNWIs hold over $5 trillion in residential real estate investment globally (Knight Frank, 2016). Canada has attracted many of these HNWIs over the decades. Between 1980 and 2001, almost 330,000 people have landed in Canada through various streams of the business programmed. 74% of all investor enlistees between 1986 and 2008 that arrived to Canada through the business immigration program comes from greater China, with mainland China dominating the statistics since the new millennium (Ley, 2015).

Despite being a smaller city than Toronto and Montreal, Vancouver has taken in 49% of all landings from 1986 to 2008 (Ley, 2015). In addition to the landings, there are many who migrate to Vancouver after landing in a different city. Between 2002 and 2014, over 60,000 investors have arrived in BC through the investor program (Ley, 2015). Canada is a safe destination with high quality of life and education and many cite these reasons for their migration (Hurun Report, 2011,2014). Additionally, the government of China has increased its crackdown on corruption, and the state imposed programs such as Fugitive Repatriation and Asset Recovery Office. 26 out of the 100 most wanted individuals by the office have reported to be living in Canada. Many individuals are sending money outside of China to avoid the government crackdown and Vancouver is one such location.

A survey conducted by the Hurun Report found that every two out of five HNWIs from China preferred to emigrate to Canada. The same survey found that Los Angeles, San Francisco, and Vancouver are the three most popular destinations for immigrant investors and buying properties are the most popular form of overseas investment (Hurun Report, 2014). The table below ranks the most popular destinations for immigration.

Table 4-2. Most Popular Immigration Destinations for HNWIs

Destination	Respondent Rate
Los Angeles	13.90%
San Francisco	13.70%
Vancouver	13.40%
New York	8.60%
Toronto	8.40%
Seattle	7.60%
Boston	4.60%
Melbourne	4.30%
New Zealand	4.10%
Sydney	3.50%

Source: Hurun Report 2014

Table 4-3. Most Popular Real Estate Investment Destinations for HNWI

Destination	Respondent Rate
Los Angeles	18.00%
San Francisco	16.50%
Vancouver	13.60%
New York	9.90%
Seattle	8.50%
Toronto	7.70%
Boston	5.50%
Sydney	2.20%

Source: Hurun Report, 2014

Furthermore, Vancouver ranks third place for the most popular places to buy real estate among the Chinese HNWIs. Table 4-3 above ranks the cities in terms of preference among HNWIs. Vancouver beats out cities such as New York, Toronto and Sydney. The most popular type of property among HNWIs happen to be single family detached homes. The type of dwelling that has seen the highest price increases in Vancouver.

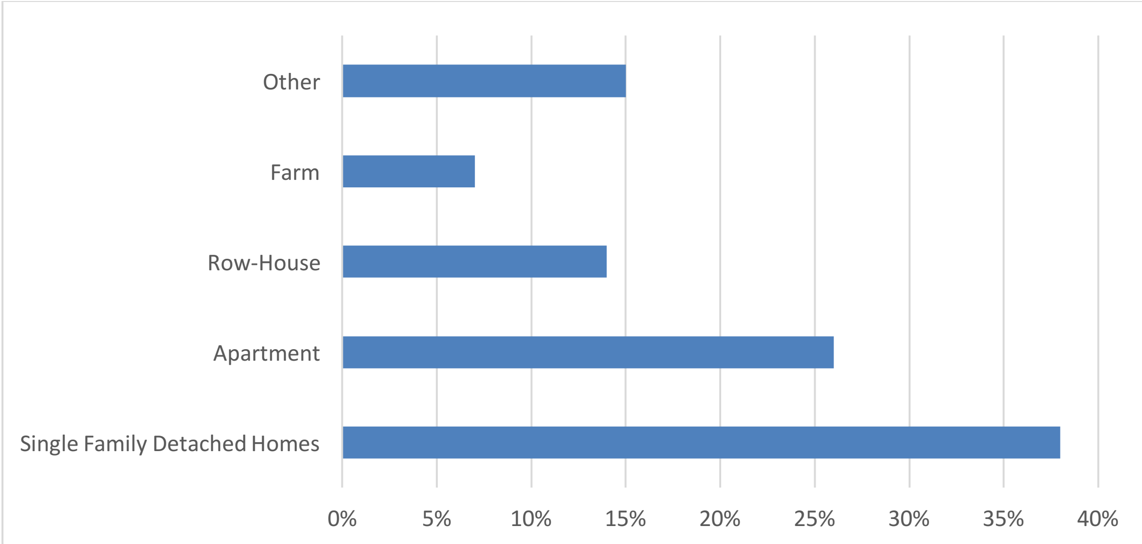

Figure 4-10. Preferred property types among Chinese HNWIs
Source: Hurun Report, 2014

In the United States, the number of investor visas rose from 1443 in 2008 to 10,692 in 2014, and 85% of the 2014 visas went to Chinese nationals. Traditionally, Canadians were the leading foreign home owners in the United States but according to National Association of Realtors, Chinese households have overtaken the Canadians. Californian cities are the most popular destinations for them (Ley, 2015). Chinese homebuyers on average paid US $831,800 per transaction, which is significantly higher than the US $255,600 paid by Americans. In addition, almost 70% of these transactions were cash purchases compared to 25% cash purchases for Americans. This is a significant movement of cash from China despite the Chinese government's restrictions that limit personal transfers to US $50,000 a year (National Association of Realtors, 2015).

In Australia, Chinese settlers in the country spent AU $8.7 billion in 2013-14 compared to AU $2.5 billion in 2008-09. The majority of the transactions in 2013-2014 were done by temporary residents, foreign investors and developers (Ley, 2015). As mentioned earlier, Vancouver ranks third after the two Californian cities in terms of investment location and preferred migration location. Despite the lack of data, it is a safe assumption that Vancouver is receiving significant amounts of wealth from Chinese investors purely based on how high Vancouver ranks on their preferences. The lack of data from the government does not mean Vancouver is unique. There is significant evidence from other parts of the world that indicates that foreign capital, particularly from China is flowing into their residential markets. Vancouver has no reason to suspect that it is not in the same situation as these other cities.

When the Business Immigration Program was cancelled by the Federal Government of Canada, there was a backlog of 50,000 applications from Chinese investors (Ley,2015). University of Waterloo professors Markus Moos and Andrejs Skaburskis wrote in their paper that “the arrival of primarily wealthy and skilled migrants resulted in a de-coupling of housing from local labor markets as Vancouver was transformed from resource centre to gateway city” (Moos and Skaburskis, 2014). An analysis of residents of immigrants from the business program that came to Vancouver between 2006 and 2011 reveal that they are concentrated in the city’s wealthiest neighbourhoods (Ley, 2015). This includes the Vancouver west neighbourhoods that had the highest prices for single family detached homes as well as one of the highest price growth rate. “The Hurun Report repeats a long established fundamental for business immigrants from Greater China - their ingrained commitment to property ownership as the primary building block of both family life and an investment portfolio” (Ley,2015).

Historically, house prices in Vancouver have been positively correlated with immigration which indicates population growth and greater demand for housing. However, in recent years, the increase in prices have outpaced immigration, coinciding with cheap mortgage and investments from HNWIs (Ley,2015). A new visa program that gives applicants temporary resident visas, allows individuals to spend up to 10 years in Canada without paying taxes. By 2014, 337,393 of these visas were issued to Chinese citizens (Tomlinson, 2015). In the last two years, the Canadian dollar lost value against the Chinese Yuan due to various reasons including the oil price collapse. Between July 2014 and January 2016, the Chinese currency gained 19% against the Canadian dollar. The cheaper dollar makes investment in the housing market in Vancouver even more lucrative for many HNWIs.

The analysis so far shows that the rise in prices in Vancouver is not due to sudden supply shocks, rapid population growth or rise in income. The city has been established as one of the top preferred locations for migration and investment. Vancouver is receiving thousands of migrants every year with large sums of wealth that most local residents cannot compete with. While the business immigration program has been discontinued by the federal government, Quebec still maintains its own immigration investor program. According to David Ley, many newcomers to Quebec quickly resettle in Vancouver as there are no restrictions to movements once arriving to the country. Ian Young is the Vancouver correspondent for the South China Morning Post and he comments: “Who in Vancouver knew that they were beholden to the world’s biggest wealth migration scheme, and that it is being run out of Quebec?” (Young, 2016). The evidence so far indicates that demand side forces are contributing to the rising prices with foreign capital playing a big role. Media content analysis presented in the next section will present findings from various media sources to further demonstrate that foreign capital is one of the key drivers of this phenomenon.

4.7. Media Content Analysis

This section will present some of the findings from various media sources to supplement the argument that Vancouver’s housing market is heavily influenced by foreign capital.

According to Macdonald Realty data, buyers from Mainland China were responsible for 70% of the company’s sales for homes listed above $3 million in 2014. In the $1 million to $3 million price range, 21% buyers were from mainland China, and 11% for homes below $1 million (Marlow, 2014). While it might seem that the Chinese buyers are concentrated at the top end of the market, they are having an impact at the lower price levels as well. According to Professor Moos of University of Waterloo, the market is seeing a trickle down effect as wealthy buyers purchase houses and redevelop them into bigger, more expensive homes. This leads to a price increase in the whole neighbourhood as other properties could also be sold to investors. People that could once afford homes in a certain neighbourhood move to a more affordable neighbourhood and in the process drives up prices there. This leads to an affordability issue throughout the region. Higher values in one area is spreading everywhere (Moos & Skaburkis, 2010).

An article by The Province on August 3rd 2015 reports that Vancouver's real estate is being used by Chinese money launderers. According to senior forensic investigator with the firm MNP LLP, Hayley Labbé "A lot of the illicit money coming into Canada from Chinese citizens is laundered through real estate in Vancouver" (Cooper, 2015). Data from Canada Border Services Agency (CBSA) shows that between June 2012 and December 2014, undeclared cash or monetary instruments worth $15,019,891 were seized at Vancouver and Toronto airports from 869 Chinese citizens. About $10 million of this was at Vancouver. CBSA data shows that Vancouver airport accounts for roughly 30% of all seizures across all border entry points in a typical year. About 60% of all undeclared monetary seizures at this airport were from Chinese citizens (Cooper & Fumano, 2016).

Canadian laws require travelers to declare all monetary instruments over $10,000 to to CBSA. In most cases, seized money is returned to the person after they pay a fine that can be up to $5,000. Chinese government restricts their citizens from removing more than $50,000 per person each year from the country. For many the risk of the fine does not outweigh the benefits of getting the cash out of China. Vancouver lawyer Christine Duhaime said, "I think Canada detects this pretty well, but we return undeclared money much more easily than the U.S. and we fine much less; so there is not much of an impediment against bringing money illegally into Canada" (Cooper, 2015). This report concludes that many individuals are circumventing China's capital control rules to bring large sums of cash into Vancouver and consequently investing that money in the housing market. The illicit money coming through these channels are part of the foreign capital that is influencing Vancouver's housing market.

If the wealth used to purchase homes in Vancouver comes from outside the region, it will contribute to the misalignment between regional income and home prices. A report by the Vancouver Sun in September 2015 outlines how the tax base in Metro Vancouver is depleting due to global wealth not being reported. The report indicates that, some residents of the west Vancouver are reporting income as low as those living in absolute poverty in other parts of the city, despite residing in multi million dollar homes. These individuals are not contributing to the tax base even though they are benefitting from various publicly funded services. Immigration Canada statistics show that refugees coming to Canada report higher income than the thousands of investors coming into the country through the business investor program (Ley, 2015).

According to Dr. Jens von Bergmann, a mathematician based in Vancouver, there are 24,960 households in the city that spend more than 100% of their reported income on mortgage, rent, utilities, property tax and other fees. It is possible that some of these households are struggling financially due to the high costs of living in Vancouver. But a large portion of these households are concentrated in Vancouver west which this report has established to be the most expensive area in the city for housing. A neighbourhood near Arbutus Ridge, 44.8% (65 households) claimed income less than their shelter costs. The median home price in this area was $1.98 million while median income was $19,993. In another neighbourhood in South Granville, 43% (65 households) had shelter costs exceed income. The median value of a home here was CAD $1.8 million but reported median income was $13,572 and 87% of residents owned homes. In the Coal Harbour area, 62% of households declare lower income than shelter cost, with average income being $14,293 and median income being only $943. This suggests that a large portion of households declare no income at all (Young, 2015). While some of these households might be living beyond their means, it seems unlikely that all of them are.

Figure 4-11. Percentage of Households with Income Lower than Shelter Costs

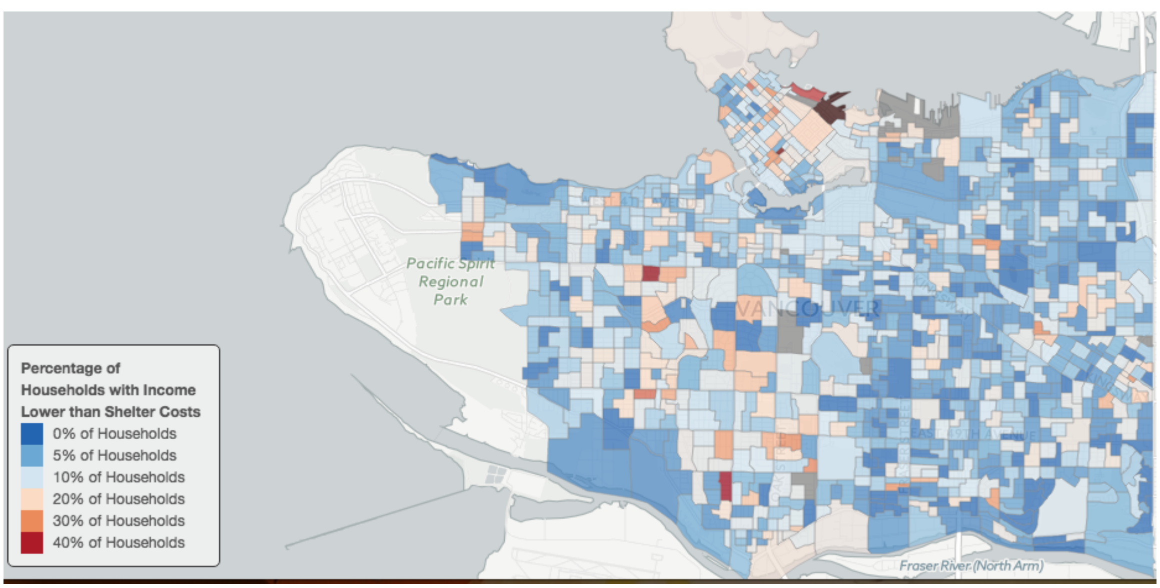

Figure 4-12. Percentage of Households with Income Lower than Shelter Costs
Source: Used with permission from www.mountainmath.ca

Overall, 9.5% of all households in the city claim to have less income than shelter costs. This is higher than the Canadian average of 4.4%, Greater Toronto average of 5.9%, Victoria average of 5.4%, and the Montreal average of 5%. While this does not prove that these residents are financing their home through foreign income, the data fits the immigration patterns. Most of these households report extremely low income. Some of these households might be retirees using their savings to pay for shelter. But Vancouver residents are more likely to be working age than Canadians as a whole, 74.6% vs 68.5% nationally (Statistics Canada, 2013).

A Globe and Mail article in October 2015 details some of the specific cases of tax avoidance. The article states that analysis of land titles, tax reporting and court records indicate that wealthy foreign families are buying real estate in Vancouver and pay very little income tax or capital gains tax. They are not breaking the law but rather using loopholes or shortcomings of the system. “Many of the houses being snapped up are not huge mansions. Increasingly, they are family homes priced out of reach for locals whose taxes pay for public services, and some of whom earn more than the incomes reported by buyers” (Tomlinson, 2015).

The current tax system is not designed to tax people earning money overseas while having a home and family in Canada. Canada Revenue Agency (CRA) rules state that a non-resident who purchases and sells properties here must pay capital gains and other taxes on returns from these investments. If they have a primary residence in Canada, and have family living in Canada, they must file taxes and report all their income to CRA. The Globe article mentions that there are reports of wealthy foreigners financing homes in Vancouver through their relatives while claiming to be non-residents to avoid paying Canadian taxes on their international income. The CRA guidelines dictate that GST must be charged on top of the price for sale of any new homes. But many owners are avoiding this by living in the house for a brief period of time and declaring it their primary residence. By doing so they can sell the house without paying any GST or capital gains tax since the home was listed as their residence. Non-resident investors would have to pay the capital gains tax but by having relatives live in the house, they are avoiding this tax. The mayor wants the federal government to close these loopholes in order to generate some additional revenue for affordable housing (Tomlinson, 2015).

An investigation by the Globe and Mail found that Vancouver area banks reported suspicious transactions involving Mainland Chinese clients 17 times more often than citizens from other countries (Hager, 2015). A lawyer and expert witness on international financial transactions said that these numbers add weight to the idea that foreign capital is influencing Vancouver's housing market. She is quoted as saying, "if the funds are from China and involve large volumes, they are for real estate purchases, because there is not much else foreign nationals from China can buy in Canada that would trigger a [suspicious transaction report]" (Hager, 2015). The Globe investigation found that wealthy investors get around China's capital control laws by having family and friends send millions of dollars in wire transactions to banks in Metro Vancouver. Real estate agents told the newspaper that many of their clients purchase homes in Canada using these methods. BC Supreme Court found that CIBC regularly helped their clients bring money from China using wire transfers despite knowing Chinese laws preventing more than $50,000 leaving the country.

4.8. Summary of the Analysis

Throughout this report, it has been mentioned that there are several reasons for the increase in home prices. Various interest groups have mentioned that the price increase is largely due to supply side shortages. The secondary data analysis shows that the housing stock in the city has been growing at a faster rate than the population. Number of completions of new homes have stayed steady, and the number of new completions of single family detached homes have gone up in the last 3 years (Metro Vancouver Housing Data Book, 2015). The analysis of the housing stock does not indicate any contraction in completions or supply shock that would lead to sudden inflation in prices. While the supply side might have some impact on the prices, there does not seem to be strong evidence to indicate that it is the primary driver of the high price levels. The evidence suggests that factors in the demand side are influencing the prices.

There has been argument made by some that low interest rates are partly responsible for fueling the prices in the city. Mortgage rates in 2015 hit record lows, despite earlier predictions from economists and experts indicating otherwise (Financial Post, 2015). Low rates attract buyers into the market as it is relatively cheaper to borrow. Cheap borrowing rates does attract more buyers into the housing market but these rates are similar across the country. Vancouver is not unique to the low interest rates and therefore its impact should not be isolated to the city either. But as it has been established, Vancouver is very unique in the Canadian context with record high home prices and yearly increase in prices. Low interest rates alone cannot be the primary factor behind the price inflation.

Immigration, in general, should not be causing the high level of prices because there has not been a spike in immigration numbers in the city. However, the influx of high net worth individuals with large sums of foreign capital has definitely played a part in the city's rising housing costs as established in the High Net Worth Individuals section earlier. The HNWIs prefer residential property investments and Vancouver is on the top of their list. Their wealth and purchasing power far exceeds the local purchasing power as such they are able to price out local residents. In the last decade there has been over 60,000 HNWIs that has come to Vancouver, each worth millions of dollars (Ley, 2015). It is conceivable that their purchasing activity is impacting prices at a significant level.

Speculation and investments are also playing a role in the price inflation of homes. Speculators and home flippers are taking advantage of the high returns in the market The Globe and Mail investigations also found that wealthy foreigners are trying to get their cash in the Canadian market as it is seen as a safe haven. The large diaspora from various nations also make Vancouver an attractive location. Throughout this report, evidence has been presented which indicates that Vancouver is a prime target for wealthy foreign investors to purchase residential properties. Investors are less price sensitive and have considerable buying power which exacerbate the price inflation (Valentine, 2015).

The analysis so far shows that there are various possible factors that are influencing the home prices. This paper argues that the catalyst for this rapid increase in price is foreign capital. The wealth base for the buyers with access to foreign capital is greater than the buyers in the domestic market relying mostly on local income. Therefore, this former group is able to dictate prices far more than the latter group.

Chapter 5. Social Problems due to Lack of Affordable Housing

The report has established that Vancouver has an unaffordable housing problem. Regardless of the type of measure used, a typical resident of this city will spend a significant portion of their income if they wish to own a home. This section will outline some of the problems the overall housing affordability issue will have in Vancouver.

5.1. Decline in Homeownership and Increase in Demand for Rental Properties

Home prices are already beyond the reach for many residents of the city. If this trend continues, homeownership rates will decline as purchasing power of residents are no longer sufficient to buy homes. Only the very wealthy will be able to purchase homes in Vancouver, and as such demand for rental properties will go up. Homeownership rate in Vancouver is already below the Canadian average of 69.0. Between 2006 and 2010, ownership rate in the city increased slightly from 65.1 to 65.5 (Statistics Canada, 2012). This rate will further plateau if prices continue to rise. Renters in Vancouver make up for than 50% of households are already facing various challenges in the city due to low vacancy, rising rents, and risk of relocation due to renovation or redevelopment of their homes (City of Vancouver, 2015). Further pressure on the rental stock due to lower homeownership will create a greater burden on the rental stock and prices. The City has made creation of rental properties one of its top priorities (City of Vancouver, 2015). While rental properties are important, the city will struggle attracting or retaining a labour force that wants to purchase homes as homeownership is still an important part of the North American culture.

5.2. Lack of suitable homes

If prices continue to increase, suitable homes are going to be more and more unattainable. In order to afford a home, people will have to downsize to homes that are not appropriate for the size of their family. Overcrowding becomes an issue, as more people live in a home in order to afford it. Single family detached homes are already out of reach for most in the city. Many are renting out rooms or parts of their homes in order to generate additional income. In Vancouver, secondary suites represent approximately 17% to 20% of all renter households (Metro Vancouver Housing Data Book, 2015). Real estate magnate Bob Rennie says that young Vancouverites should let go of their dream of owning a single family detached home and embrace density if they want to stay in the city (CBC, 2015).

5.3. Delayed home-ownership

There are many in Vancouver that are delaying the purchase of their homes due to lack of income or affordable homes. The current generation is already delaying purchases of homes as compared to previous generations (Angus Reid, 2015). Homes are often the primary storage of wealth or equity for many and by delaying homeownership, younger people are falling behind in their financial goals and stability. If the current trend in price continues, many of these people will never be able to afford a home. Wages are not keeping up for them to enter the housing market. A survey conducted by Angus Reid in 2015 asked non-owners in the region why they are not buying homes. Among respondents in the 18-34 age bracket, 44% mentioned wanting to own a home but not being able to afford it. In the 35-54 age bracket, 61% mentioned the same thing. A VanCity report finds that 93% of millennials want to own homes sometime in the future (VanCity, 2015). This is very challenging for many with the median income and home prices in Vancouver.

5.4. Sprawl

As the city becomes more unaffordable, the overall region will suffer. People will start to move out of the core of the city into the surrounding suburbs. The housing prices in these suburbs are already rising and greater demand will further escalate the price. Greater sprawl will put more pressure on infrastructure; roads and transit networks will need upgrades in order to sustain the commute from the suburbs into the city for work. This will have negative consequences for the environment. According to the Director of UBC's School of Community and Regional Planning, Penny Gurstein, "Affordable housing has a large impact on commuting patterns. When you have your services and work opportunities within easy proximity of where you live, of course you're going to be less dependent on travel." (Karstens-Smith, 2015). The sprawl will threaten Vancouver's reputation as one of the North America's greenest cities.

5.5. Labour Shortage

A report from VanCity finds that rising home prices could lead to an exodus of highly mobile millennials from the region. The stagnating salaries in the region means income is not increasing to keep up with home prices. By 2020, 82 of 88 in-demand jobs will be unable to afford a single family detached home in Vancouver. Within ten years, most individuals might forgo a career opportunity in the region to relocate to a different labour market with more affordable housing (VanCity, 2015). The housing price will not attract many to the region and as such the net exodus will lead to a labour shortage crisis. The region's long term economic viability will be compromised as the industries will struggle to employ suitable people. The middle class labour force will leave for a community where housing is more affordable. Companies will have to pay higher to attract employees to the city and if wages go up too much, these companies might leave as well or pass the cost onto consumers. Overall, cost of living will rise even further in the city. "Metro Vancouver's sky rocketing house prices can only serve to be a detriment for those serious about establishing a career in the region" (VanCity, 2015).

Chapter 6. Jurisdictional Scan

Vancouver is not unique when it comes to the influx of foreign capital in the domestic residential market. Major cities around the world have faced similar issues. However, unlike Vancouver many of these cities have taken steps to regulate foreign capital or ownership in order to protect local residents from out of control prices. There are various examples that regulators in Canada can use as guidelines to develop strategies for Vancouver. Some of these are outlined below.

6.1. Australia

Australia has faced similar issues as Vancouver's housing market. Major cities such as Sydney and Melbourne saw rapid rises in prices that were correlated to the government allowing international students studying in the country to purchase properties and holding on those properties even after leaving the country. The students served as a proxy for their parents to purchase homes in Australia. This led to housing becoming increasingly unaffordable and out of reach for local residents. By 2013, as much as 80% of new properties in parts of Sydney were sold to buyers from China. Facing public backlash, the government changed regulations that forced international students to sell their homes upon leaving Australia (Valentine, 2015). Furthermore, the country restricts foreign non-residents from purchasing existing homes, except in limited circumstances. They are restricted to new properties that have never been occupied or vacant land. New developments can only have maximum 50% non-resident owners.

Australia also imposes a progressive application fee that starts at $5000 for homes under AU $1million, and $10,000 for every additional million dollars. There is also an ex-post fine system in place for violators that can be up to AU $127,500 and up to three years of jail time, as well as being forced to sell the property (Sun, 2015). For immigrants coming through the investor visa program, any investment in the residential property market will be subject to an additional 3% surcharge on top of the existing 5.5% duty rate. Temporary residents are also limited to one established property for purchase. The country also has the Foreign Investment Review Board that reviews and approves of all foreign purchases in the market. Overall, the country is focused on better data collection and enforcement capability to ensure foreign investment works in a beneficial way for the local economy (Sun, 2015).

6.2. Switzerland

Switzerland has long had policies to address foreign capital and investment. Since 1961, the country allows only 1500 properties to be sold to foreigners per year. This regulation was adopted as a law in 1983. The country also addresses property speculation and house price inflation by limiting the number of secondary residences in any municipality to 20% (Valentine, 2015).

6.3. Singapore

In most of the country, foreign ownership of vacant residential properties are limited to individuals who are of “economic benefit” to Singapore. The government reviews these purchases and require them to be occupied by the owners. However, condos and commercial properties are not subject to government approval process. Foreign buyers pay a 15% duty on top of a Buyer’s Stamp Duty that ranges from 1 to 3% for residential property purchases. Buyers from USA, Switzerland, Norway, Lichtenstein, and Iceland are exempt due to tax treaties. In order to limit speculation and flipping of houses, properties that sold within four years of purchases might be subject to a Seller’s Stamp Duty that ranges from 4 to 16%, depending on the length of ownership (Sun, 2015).

6.4. Denmark

Denmark restricts purchases of homes by non-EU residents. EU residents can buy any properties except vacation homes, which must be reviewed by authorities first. In order to purchase a home, a non-EU resident has to establish residency in Denmark for five years. In certain areas that are popular for summer holiday homes, the properties are only available to Danish residents (Sun, 2015). Buyers have to demonstrate personal or family connection to a property to overcome this restriction.

6.5. Mainland China

Foreign buyers are restricted to only one property and it must be for self use. These individuals must reside in the country for a year prior to purchasing the property. Commercial purchases and investments in land development are open to foreign enterprises. Foreign investors must pay 18% Urban Real Estate Tax on rental income and 1.2% on the sale of a property (Sun, 2015).

6.6. Hong Kong

Buyers from outside Hong Kong must pay a Buyer's Stamp Duty of 15% of the value of the property. Foreign buyers are also subject to a progressive stamp duty on the sale or transfer of property that starts at 1.5%. To limit speculative purchases and flipping, a Special Stamp Duty is applied to the resale of properties that are held for less than 3 years. Depending on the ownership period, rates can vary from 10% to 20% of the value of the property and applies to both foreign and domestic owners (Sun, 2015).

6.7. Taiwan

Taiwan allows foreign acquisitions of its property if the investor's home country has policies that allow Taiwanese investors to do the same. This is a unique approach to address foreign investment. In fact, Canada is recognized as one of the reciprocal nations; this allows Canadians to purchase properties in the country without additional documentation. To prevent unoccupied homes and speculative purchases, Taiwan taxes homes that are not occupied and sold within two years of purchase. This rate varies from 10 to 15% of the value of the home. There are restrictions in place for mainland Chinese investors specifically. Purchases are restricted to 400 units of buildings annually (Sun, 2015).

Chapter 7. Policy Options

The influx of foreign capital into Vancouver has caused various issues as mentioned throughout this paper. It is difficult to address all of these issues through one policy option. In order to curb the influence of foreign capital and maximize the impact, there needs to be collaboration among the multiple stakeholders when developing and implementing policy options. The biggest consequence of foreign capital has been the housing price inflation which has priced out local residents. The policy options explored in this paper will attempt to influence prices by targeting the flow of foreign capital, purchasing behaviour and speculation activity.

The options explored in this paper will not directly restrict foreign capital entering Canada since the implications associated with that is beyond the scope of this paper. Keeping that in mind, the following sections will outline a series of policy options that mitigate some of the major consequences of foreign capital. The best practices section outlines the steps the government should regardless of the recommended policy option.

7.1. Best Practices

The collection of data does not address the issue in itself and analyzing policy options on how to collect better data is not the purpose of this paper. However, the government should be establishing a systematic method to collect and track data on foreign capital and ownership. The lack of specific data regarding foreign ownership and capital has been cited as a reason for lack of action in Vancouver. There is nothing preventing foreign capital from entering cities other than Vancouver; in fact, various news agencies are already reporting about foreign capital in other major cities in the country. By having an established system in place that tracks foreign capital and ownership, the government can implement appropriate policy responses in a timely manner. Regional data will allow authorities to modify their policy responses as deemed appropriate for a specific region. As seen in Vancouver, by the time data is collected, the impact of foreign capital is already widespread. Ideally, the data should be collected at a national level with regional parameters. The CMHC or Statistics Canada with the help of financial institutions should be primarily responsible for data collection. Regional cooperation between municipalities and provinces should be sought for more robust data. The government of BC has promised better data collection in the future, but the process should be done at a national level because once foreign capital enters Canada, it is free to flow throughout the country. The current proposal by the BC government only looks at foreign ownership but does not address the bigger issue regarding foreign capital.

Ideally, Canada should implement a review board similar to Australia's Foreign Investment Review Board. Under the framework, all foreign individuals looking to purchase homes in Canada must apply for approval prior to purchasing residential real estate. This process will not only allow the government to track the number of owners but also have a better understanding of the source of capital entering the country. The review board will bring some much needed transparency to the foreign ownership debate in the country.

Furthermore, the Canada Revenue Agency (CRA) needs to be empowered accordingly to ensure that tax avoidance and fraud can be detected in a timely manner and enforcement can be carried out to punish such behavior. By giving the CRA the appropriate tools, the government can deter these kinds of behavior. Tax avoidance is already an issue among homeowners in Vancouver. Introducing additional taxes without empowering CRA will reduce the effectiveness of these policies. Therefore, the federal government needs to add additional resources to the CRA in order to deal with fraud related issues.

7.2. Option 1: Progressive Property Tax

Various experts have proposed tax policies that modify the existing property tax structure. A unique proposal was put forward by Professor Rhys Kesselman from Simon

Fraser University. In this proposal, a progressive property tax that increases with the value of homes will replace the current model. Homes valued under a certain threshold would be exempt from the tax in order to ensure lower income homeowners are not adversely impacted. The surtax would apply at increments and the breakdown can be seen in the table below.

Table 7-1. Breakdown of Progressive Property Tax

Level of surtax	**Value of Homes**
0.5%	$1 million to $1.5 million
1.0%	$1.5 million to $2.0 million
1.5%	$2.0 million to $3.0 million
2.0%	Greater than $3.0 million

Source: Vancouver Sun, 2016

Table 7-2. Examples of Progressive Property Tax

Example	**Taxable amount**	**Total Taxes**
Value of home = $1.3 million;	$300,000 @ 0.5%	$1500
Value of home = $1.9 million	$500,000 @ 0.5%; $400,000 @ 1.0%	$6500
Value of home = $2.9 million	$500,000 @ 0.5%; $500,000 @ 1.0%; $900,000 @ 1.5%;	$22,000

In the proposed tax, a house worth $2.9 million dollars would pay $22,000 in taxes a year. Currently in Vancouver, a homeowner pays $3.535 for every $1000 of taxable value of their property. Under the current system, a similar home, worth $2.9 million would be taxed $10,250.

While it might seem that this is a substantial tax hike for homeowners, this progressive tax is not a pure tax hike for all owners. The tax is designed to target vacant properties, absentee owners, and homes purchased purely for investment purposes. It is able to insulate Vancouver residents that occupy their homes by allowing them to credit their B.C income tax against the surtax. Kesselman states that "non-resident foreign owners, satellite families, tax evaders, and criminals using their proceeds to buy homes would be most impacted by the surtax, since they would have paid little or no B.C. income tax to offset against their surtax. Both foreign and domestic speculators in higher-valued residential properties would also bear surtax since they would not have sufficient income tax to credit against all their holdings." (Kesselman, 2015).

Essentially, homeowners who claim income tax in the city will be protected against much of the higher property tax. Depending on their income, and the value of their home, most homeowners should be able to at least partially credit the tax against their BC income tax. The system is also designed to assist owners who are equity rich but have very little liquid assets otherwise. Homeowners can defer payments of the tax until they sell the property. This is a very unique proposal that has not been implemented in any of the jurisdictions studied in this paper.

7.3. Option 2: Speculation Tax

Various politicians and experts including Vancouver Mayor Gregor Robertson, and Prof. Kesselman have called for a speculation tax to be implemented in the city to stop rising prices. The government of BC has the jurisdiction to implement a speculation tax. It can use its discretion to apply the tax in regions that are most impacted by speculation and flipping activity, such as the City of Vancouver. The current land transfer tax in the province was initially a speculation tax when it was first introduced. However, the design of the transfer tax has been changed since and it no longer targets speculative behavior effectively.

The jurisdictional scan section shows that a speculation tax has been used in other parts of the world. In the context of BC, a model similar to Singapore is a viable option for the province, where sellers may be subject to additional taxes if the property is resold within a certain timeframe (Sun, 2015). The tax would apply to the selling price of the property. The following table breaks down the tax rate and holding period.

Table 7-3. Speculation Tax breakdown

Property Holding Period	**Tax Rate**	**Example: Market value of property $2.9 million at point of sale**
Less than 12 months	10%	Tax amount:$290,000
More than 12 months but less than 24 months	7%	Tax amount:$203,000
More than 24 months but less than 36 months	4%	Tax amount:$116,000
More than 36 months but less than 48 months	2%	Tax amount:$58,000
More than 48 months	Exempt from Speculation Tax	N/A

As the table demonstrates, the tax will go down as the period of holding goes up. Properties sold within 24 months of purchase are heavily taxed to limit the number of transactions in the market. The tax will be collected by the province similar to the existing property transfer tax. The tax will apply equally to domestic and foreign buyers. Exemptions will apply to housing developers and owners that have declared bankruptcy. The speculation tax will work in conjunction with the capital gains tax applied on investment properties.

7.4. Option 3: Tax Surcharge for Foreign Buyers

A more direct policy to address foreign capital would be to tax foreign owners of residential properties. This surtax would be implemented in cooperation between the federal and provincial governments. Any non-resident buyer looking to purchase a residential property in Canada will be subjected to this surtax at the point of purchase. As mentioned in the jurisdictional scan section, tax surcharge on foreign buyers have been implemented in Singapore and Hong Kong and the one proposed in this paper is very similar in nature to the one's identified in the jurisdictional scan.

This surtax will exclude permanent residents and citizens of Canada. However, temporary visitors such as international students will be subject to this tax. International students are a prime source of foreign capital in Vancouver and there are concerns that they contribute to the rising house prices in the city (McMahon, 2016). There will be additional exemptions in place to protect those visitors who can demonstrate that they are planning to reside in Canada for the long term.

The tax surcharge will be designed to increase with the value of the home. For properties with market value below $2 million, foreign buyers will be subject to 10% tax at the point of purchase. For properties worth more than $2 million, buyers will be subject to 15% tax. For example, a property purchased for $1.6 million will be taxed $160,000, while a property purchased for $2.9 million will be taxed $435,000.

The high rate of tax is meant to to discourage foreign buyers from entering the residential property market, particularly those who are not planning on staying in Canada for the long term.

Chapter 8. Criteria and Measures

This section will provide the framework used to evaluate the policy options to determine the best course of action. The primary goal of the policies is to limit the impact of foreign capital in the region's housing market. The policies are not restricting foreign capital directly but instead creating disincentives for foreign capital and discouraging its use in the housing market. Therefore, the policies must 1) dampen the housing price inflation and 2) improve housing affordability in the city. As such, three societal and government management objectives have been defined to best ensure the policies achieve their desirable outcomes. The three objectives are effectiveness, budgetary impact, and stakeholder acceptance. The table below outline the criteria and measures in detail.

Table 8-1. Criteria and Measures

Societal Objectives	Criteria	Measure
Effectiveness	Will the policy lead to a decline in housing prices?	Measured through evidence from other jurisdictions, and potential price changes based on economic theory.
	Will the policy discourage the use of foreign capital?	Measured through evidence developed through economic theory.

Government Management Objectives	Criteria	Measure
Budgetary Impacts	Can the policy be easily implemented within the existing structure of the responsible government department?	Relative administrative cost associated with each policy
	How will this policy impact tax revenue?	Net change in tax revenue from pre-implementation to projected post implementation numbers.
Political impacts and third party acceptance	Is the policy acceptable to the relevant stakeholders? I. Different levels of government. II. Vancouver residents	I. Based on past political stances on the specific policy II. Public poll data to assess opinion on each policy options among Vancouver residents

8.1. Effectiveness

The objective of effectiveness is to determine if the policy option meets the primary goals the policy was intended for. In the context of this paper, the main goal of the policy options is to limit the impact of foreign capital in Vancouver's housing market. The primary measure of success will be determined through the policy's impact on housing prices. Prior to implementation, the effectiveness of policy will be analyzed based on results and evidence from other jurisdictions and potential price impacts as suggested by economic theory. Due to the lack of exact data, exact estimates regarding price changes will not be provided.

The magnitude of the change in housing prices will determine the success of the policy. If the policy can dampen the overall housing prices in the city, then it will be deemed successful. Due to the rapid price inflations in the housing market, any policy that stop the price growth will be deemed successful. However, the ideal outcome is a reduction in price as the current price point in the market serves as a huge barrier to entry for local residence. Therefore, if the policy is able to reduce housing prices at a moderate to significant level (5% to 10%), it will be considered highly successful or ranked high. If the policy results in small reductions in price (2% to 5%), then it will be ranked medium. And finally, if the policy is only able to stabilize the price but fails to reduce it, it will be deemed somewhat successful but ranked low. At this point, just stabilizing the price will not be enough to provide relief to local residents.

The effectiveness of the policy can be measured after implementation by comparing housing prices from before the policy to after. The Real Estate Board of Greater Vancouver publishes detailed data on housing prices that can be used to measure the success after implementation of the policy. This process should be undertaken in future research to review if the policy has been successful, and is not considered in this paper.

The second criterion for effectiveness looks at whether the policy is able to discourage the use of foreign capital in the housing market. While restricting foreign capital is difficult, discouraging its use in the city is much more viable. By discouraging foreign capital, the city's housing market can realign with the domestic income. However, measuring this is challenging. Policies will be measured based on the degree of impact it has on discouraging foreign capital. The policy will be ranked high if it is able to directly and significantly reduce the incentive to use foreign capital. If the policy is able to modestly reduce the incentive to use foreign capital in the market, whether directly or indirectly, it will be ranked medium. If the policy serves as a small disincentive, then it will be deemed somewhat successful but ranked low. The ideal policy should be able to discourage the use of foreign capital while limiting the impact it has on the housing market.

8.2. Budgetary Impacts

The budgetary impacts fall under the government management objective. The goal of this objective is to ensure that policy options are viable within the constraints of the department responsible for implementing it. Concerns regarding administrative and operating costs need to be addressed. The ease of implementation is the first criterion of budgetary impacts and is measured based on the administrative costs associated with policy. If the policy requires minimal additional resources to implement and enforce while working within the existing frameworks, then it will be ranked highly. If the policy can work within existing frameworks but requires significant additional resources, then it will be ranked medium. A policy that requires significant overhaul of the existing frameworks or new frameworks to implement and enforce will be ranked low.

The second criterion for budgetary impacts deals with tax revenue. The relative costs and revenue associated with the policy options is an important criterion when evaluating them. The impact on tax revenue will be measured by looking at the net change in revenue from pre-implementation to projected post implementation revenues. If the policy option increases the tax revenue, then it will be ranked high. If it results in no change in tax revenue then it will be ranked medium, and if the revenue declines as a result the policy option will be ranked low.

8.3. Political Impacts and Third Party Acceptance

The second government management objective looks at the political and third party impacts of the policy. The criteria for this objective is based on acceptance among the key stakeholders, including Vancouver residents (homeowners and non-homeowners) and the various levels of government (municipal, provincial, and federal).

While other groups might be considered stakeholders, such as foreign investors or real estate agents, their acceptance of the policies are not vital to the analysis.

Foreign capital has become an issue because it is adversely affecting the ability of Vancouver residents to find affordable homes in the city. As such Vancouver residents, both homeowners and non-homeowners are considered as key stakeholders. However, the two groups might have different objectives and preferences when it comes to the policies. The three levels of government are also relevant because of their respective role in the decision making and policy implementation process. It is important to assess the political feasibility of each policy option among the different government levels.

Different methods will be used to measure the acceptance level among the key stakeholders. For Vancouver residents, public opinion polls will be used to gauge acceptance of the policy. Acceptance among the different levels of government will be measured based on previous comments made by the respective authorities on each policy. The policies will be ranked based on the level of support from the three governments, with particular emphasis on the government with authority to implement the policy. The overall acceptability will be measured based on the number of stakeholders on board with a particular policy option. A high ranking would go to the option that has the most support, medium ranking for moderate support, and low ranking for no support.

8.4. Measures and Weights

To assess the tradeoffs between policy options, each option will be given a rating of high (3), medium (2), or low (1) based on their relative scoring. Because both effectiveness and budgetary impacts have two criteria each, they will have a higher weight than political and third party acceptance objective. In regards to the stakeholders, acceptance among the political authority that has jurisdictional authority to implement the policy will have a higher weight in the analysis. The highest score a policy can get is 15 out of 15, while the lowest it can score is 5.

Table 8-2. Breakdown of Measures

Objective	Criterion	Measure	Low (Score = 1)	Medium (Score = 2)	High (Score = 3)
Effectiveness	Will the policy lead to a decline in prices?	Measured through evidence from other jurisdictions, and potential price changes based on economic theory.	No change in home prices	Small reduction in home prices (2% to 5% reduction)	Moderate to significant reduction in home prices (5% to 10% reduction)
	Will the policy discourage the use of foreign capital?	Measured based on the degree of impact it has on discouraging foreign capital.	Very small reduction in the incentive to use foreign capital	Modestly reduces the incentive to use foreign capital (directly or indirectly)	Directly and significantly reduces the incentive to use foreign capital
Budgetary Impacts	Can the policy be easily implemented within the existing structure of the responsible government department?	Relative administrative cost associated with each policy.	High administrative cost	Moderate administrative cost	Low administrative cost
	How will this policy impact tax revenue?	Net changes in tax revenue from pre-implementation to post implementation revenue (projected).	Decline in tax revenue	No change in tax revenue	Increase in tax revenue

Objective	Criterion	Measure	Low (Score = 1)	Medium (Score = 2)	High (Score = 3)
Political Impacts and Third Party Acceptance	Is the policy acceptable to the relevant stakeholders? I. Different levels of government II. Vancouver residents	I. Based on past political stances on the specific policy. II. Public poll data to assess opinion on each policy options among Vancouver residents.	No acceptance among stakeholders	Moderate acceptance among stakeholders	High acceptance among stakeholders

Chapter 9. Evaluation of Policy Options

9.1. Effectiveness Analysis Summary

Table 9-1. Scoring for Effectiveness

Criteria	Option 1: Progressive Property Tax	Option 2: Speculation Tax	Option 3: Foreign Ownership Surtax
Will the policy lead to a decline in housing prices?	**High**	**Medium**	**Medium**
Will the policy discourage the use of foreign capital?	**High**	**Medium**	**Medium**

All three options score medium or higher in this section. These sophisticated tax policies can be very useful in terms of mitigating the impact of foreign capital in Vancouver.

9.1.1. Criterion 1: Will the policy lead to a decline in housing prices?

Progressive Property Tax:

Due to the design of the Progressive Property Tax, it will have moderate to significant reduction in housing prices in the city. Therefore, the policy is ranked high in this criterion. The tax primarily targets homeowners who are not claiming income tax in Canada. Under this system, absentee and foreign owners will face additional costs for owning a home in Vancouver compared to the status quo. Because the tax is accrued annually, it can be a substantive amount for the homeowner over the ownership period. The higher annual costs associated with ownership could lead to some foreign owners selling their properties. This would increase supply in the market and reduce prices. The higher tax will also deter new investment in the housing market. For new investors, this additional cost can dissuade them from investing since a higher portion of their return will go towards taxes. Overall, the tax will create more supply and fewer demand from foreign sources and this should result in a reduction in housing prices.

Absentee owners who leave properties empty for much of the year will also face higher taxes. Currently, vacant properties are not taxed any differently than occupied dwellings. If the owner of the vacant property resides outside BC, they will be facing additional costs due to the tax. The higher cost associated with leaving vacant properties will incentivize owners to put the unit back into the market. This should increase the supply of available homes in the market and therefore reduce housing prices. A group of economists from Simon Fraser University and University of British Columbia have said that taxing vacant homes will create enough of an incentive for homeowners to rent out the property (Davidhoff, 2015).

Because typical foreign owners are able to tap into a larger source of wealth compared to the typical local resident, they are able to compete at a higher price point. If demand from the wealthy foreign owners are reduced, the market price should adjust to reflect local purchasing power.

Prof. Kesselman has mentioned that, “The scheme would also discourage the purchase of highly priced properties and thereby release land and resources for construction of more moderately priced housing. Reducing the high appreciation rates on detached homes would exert ripple effects on expectations about future price increases, dampening the perceived urgency to buy” (Kesselman, 2016). Reduction in price appreciation and consequently the reduced urgency to buy will ease the demand side pressures on housing prices.

Based on the analysis, the estimated reduction in prices will be greater than 5% and therefore, the policy is ranked high.

Speculation Tax:

The Speculation Tax is ranked medium in this criterion due to its modest reduction home prices. Investors are cashing in on the high returns in the market by speculating and flipping homes in the city. Speculative demand is putting further pressure on prices. There is a lack of comprehensive data available for all speculative activity in the market. But data from Landcor Data Corp. shows that between 2010 and 2015, in a sample of 250 properties, 147 detached homes were sold twice and 37 properties were sold three times (Gold, 2016). This small sample comes from only a few neighborhoods in Vancouver west. Some of these homes are being put back in the market only months after initial purchase for a significantly higher price. The speculation and flipping activity is done by both domestic and foreign investors and is a byproduct of the influence of foreign capital in the market.

The speculation tax similar to the one proposed here for BC has been implemented in other jurisdictions with mixed results. In Singapore, there are indications that since the introduction of a speculation tax, the housing market has cooled off (Sun, 2015). The data indicates that most sellers are waiting to sell their property in the last year of the holding period, which is at least 36 months from the point of purchase. This implies that the speculation tax discourages short term speculation in the market as speculators won't be able to get much of a return with the high tax rate in the initial months. In other words, much of the short term gain from speculating is lost to the tax. In Hong Kong, a similar speculation tax has reduced short-term speculative activity and the overall number of transactions in the housing market, but prices continued to increase (Sun, 2015). The mixed results in Hong Kong and Singapore is partly why the speculation tax is ranked medium.

In Vancouver, those speculators who are not willing to invest for a longer period will leave the market. Fewer speculators should reduce demand and therefore prices. As much of the short term gains disappear due to the tax, price expectations should reduce as well. Speculation tax will be successful in reducing market housing prices but the degree of the success is dependent on the overall speculation activity in the market. However, this information is not readily available for Vancouver. Therefore, this analysis makes a conservative prediction that speculation tax will have modest reduction of 2% to 5% in housing prices in Vancouver. The option is ranked medium.

Foreign Ownership Surtax:

Singapore and Hong Kong employ a similar tax surcharge for foreign property buyers to the one proposed in this paper. This tax will discourage foreigners from buying homes in the city. Due to the additional costs at the point of purchase, some potential foreign owners will be dissuaded from purchasing the property. The higher price point for foreign owners acts as a barrier to entry and reduces foreign purchasing power in the market. Any foreign investor looking to capitalize on the returns will be more reluctant to enter the market. The higher entry point for foreign owners compared to domestic owners mean that they need a higher price inflation to gain a substantial return on their investment. The tax essentially diminishes much of their return from the market. This reduces demand and therefore prices in the market.

Furthermore, it will discourage temporary visitors to the city from buying up homes. This will increase the number of available homes for local long term residents. Increased supply and lower demand will ease the pressure on prices and reduce home prices in Vancouver.

However, the effectiveness of the option on housing prices is mixed. In Hong Kong, prices continued to rise, while in Singapore there was some relief (Sun, 2015). This could indicate that demand is much more inelastic among foreign buyers in Hong Kong than in Singapore. Partly because of the mixed results in other jurisdictions, the policy is ranked medium in this analysis.

In Vancouver, many foreign owners can circumvent this policy by using local residents as proxies to purchase homes. This diminishes some of the effectiveness of the policy. Also the policy does not limit the impact of foreign capital used by local residents to finance their home and many foreign investors can circumvent this policy by using local proxies to purchase the home. However, the tax will reduce overall demand in the market from foreign sources and reduce prices at an estimated 2% to 5%. Therefore, it is ranked medium for this criterion.

9.1.2. Criterion 2: Will the policy discourage the use of foreign capital?

Progressive Property Tax:

The Progressive Property Tax rank high in this criteria. The tax is designed to apply to properties in a progressive manner while allowing owners to credit some of it against their income. This unique design means that those homeowners who are not reporting income in the province will face a higher tax rate. The tax is applied to properties worth over a million dollars, and it requires a certain level of income or wealth to maintain ownership of these properties. The implication is that some of these owners who are not reporting income in the province are using foreign capital to purchase or maintain ownership. This allows many owners to avoid paying income tax in the province.

The Progressive Property Tax reduces the incentive to use foreign capital to finance their homes, as it is more expensive to use foreign capital than to use local incomes. The tax creates an incentive to report local incomes more and reduce the use of foreign capital. It directly discourages the use of foreign capital and therefore the option is ranked high for this criterion.

Speculation Tax:

Speculation Tax ranks medium in this criterion. The tax does not directly discourage the use of foreign capital by design. The tax is directed towards all speculators in the market regardless of their origins. By punishing speculative behavior, the tax reduces the overall number of transactions in the market, including those financed by foreign capital.

There is some evidence, as outlined in earlier sections of this paper that indicates speculative activity by foreign owners in Vancouver. The Speculation Tax will discourage these buyers from participating and indirectly reduces the incentive to use foreign capital. The policy is ranked medium because not all foreign capital in the housing market is used for speculative purchases. The tax will not discourage buyers with foreign capital who are willing to hold on to the properties for a longer period to mitigate the effects of the tax. For these reasons, this option is ranked medium for this criterion.

Foreign Ownership Surtax

The Foreign Ownership Surtax ranks medium in this criterion. The tax targets owners that do not have legal residency status in Canada or visitors that are only here for a short period of time like international students. These owners typically finance their homes using foreign capital. By taxing their home purchases in the city, the tax is able to reduce the influx of foreign capital in Vancouver and discourage its use.

The Foreign Ownership Surtax essentially opens up the market for more local purchases by increasing the cost for foreign owners. If demand from foreign sources are reduced, the need for foreign capital is reduced as well.

However, the tax does not reduce the incentive to use foreign capital for everyone. Local residents are able to use foreign capital to finance their home purchases without any additional taxes. This creates the potential for foreign buyers to evade the tax by using local proxies to purchase homes. This dampens the effectiveness of the tax. While the tax is useful in discouraging some use of foreign capital, it does not cover all the sources. Due to this reason, this policy is ranked medium for this criterion.

9.2. Budgetary Impact Analysis

Table 9-2. Scoring for Budgetary Impact

Criteria	Option 1: Progressive Property Tax	Option 2: Speculation Tax	Option 3: Foreign Ownership Surtax
Can the policy be easily implemented within the existing structure of the responsible government department?	**High**	**Medium**	**Low**
How will this policy impact tax revenue?	**High**	**High**	**Medium**

9.2.1. Criterion 1: Can the policy be implemented within the existing structure of the relevant government department?

Progressive Property Tax:

The purpose of this criterion is to identify the policy option that will be the easiest to implement within the existing structure. The Progressive Property Tax ranks highly because it slightly modifies that existing property tax system instead of overhauling it. The province and city would need to merely adjust the rates to implement the tax. The unique feature of the tax allows local residents to credit the tax against their BC income. This process can be done at the user’s end when they file for taxes. The tax agencies will need to accommodate this at their end as well. However, the overall complexity of this tax is very low and requires minimal additional resources. Overall, this policy was ranked high due to lack of complexity and ease of implementation.

Speculation Tax:

The speculation tax ranks medium in this criterion. The speculation tax would be implemented by the provincial government. Currently, similar taxes in the province do not exist and the tax body would have to develop a new system to implement it. While it might be a simple tax by design, it does require additional resources in order for it to be implemented.

For successful implementation, the province would use the purchase and selling dates of all residential properties to determine the tax rates. The data on transactions needs to be repurposed for this tax. Overall, there is moderate administrative costs associated with tracking the transactions and maintaining this record. The costs derive from the support team required to administer and enforce the tax and the implementation cost. Ease of implementation is also a concern as there needs to be a new system in place. This option is ranked medium due to the need for moderate amounts of new resources.

Foreign Ownership Surtax

The Foreign Ownership surtax ranks low in this criterion. This tax would require the government to identify the nationality of the buyer prior to the purchase of the property. A review board would be needed to examine all buyers in the city due to different types of visa and immigration programs in Canada.

The review board needs to analyze and use discretion for each situation at an individual basis and that requires significant administrative effort. Because immigration is handled by the federal government, there needs to be coordination between them and the provincial government.

While tax in itself is simple, its implementation is not. The need for nationality data along with the review process associated with it makes it more difficult to implement than the other options. The review board also needs to address issues with tax evasion.

The Foreign Ownership Surtax creates an incentive for foreign buyers to use local proxies to purchase homes in order to avoid paying the tax. The review board needs the ability to audit purchases that are done by local residents in order to curb tax evasion. The review board would need monitoring and enforcement ability and this requires allocation of significant new resources. Due to the significant amount of resources required and administrative complexity, the tax policy is ranked low in this criterion.

9.2.2. Criterion 2: How will this policy impact tax revenue?

The second criterion for budgetary impacts measure the tax revenue generating capability of each policy. Sophisticated taxation can be a very useful tool to mitigate some of the effects of foreign capital in Vancouver. Taxation can be used to both punish bad behavior and generate revenue for the government. Though a tax might not be enough to deter all investments in the residential property market, at the very least it will generate additional tax revenue that can be earmarked for affordable housing projects or other priorities. Due to the lack of data on foreign capital, speculation, and foreign owners, it is difficult to determine the amount of government revenue that will be generated through these taxes. Therefore, theoretical reasoning and a range of estimates are used to measure revenue. All three options are ranked medium or higher.

Progressive Property Tax:

The Progressive Property Tax ranks high in this criterion. The Progressive Property Tax has the largest tax base as it applies to all property owners in the city though most local owners can credit the tax against their income.

If all homeowners in the city credit the entirety of the tax against their income tax, then it will generate zero additional revenue; but this scenario is unlikely. Currently, there are 25,000 or 9.5% of all households in the city that spend more on their housing costs than their reported income. Many of these households are located in the upscale neighborhoods of Vancouver west. The implication here is that some of these households are relying on foreign capital to finance their housing costs and are not contributing to the tax base. The property tax will bring these homeowners into the base.

A conservative estimate of 5% of all households falling into this category puts the total number of households this tax will impact at roughly 13000. A progressive property tax of 1% will apply to the benchmark price of $1.6 million (REBGV, 2016) in the city. This amounts to $3500 of taxes per household or $45 million in total new revenue. If all 25,000 households are subjected to the tax, then the revenue will be close to $100 million dollars. This number can range significantly depending on the actual number of households the tax will apply to and the value of their home. That is a substantial amount of revenue, even under conservative estimates.

In terms of limitations, this tax does have the possibility of reducing other revenue sources for the government. If the option leads to a reduction in the number of transactions (selling and buying of property) in the market, the overall property transfer tax amount will go down. Currently, every $1 million in residential property sales generate $18,000 in transfer tax for the government (Government of BC, 2015). So a significant reduction in demand could offset the revenue gains from the tax. But the tax will result in some foreign investors selling their properties in the short term in order to exit the market. This activity will increase the revenue for the property transfer tax in the short term. Furthermore, the tax will bring in revenue on a yearly basis, and over its lifetime should be able to offset any reduction in the property transfer tax. Due to this reasoning, the policy is ranked high for this criterion.

Speculation Tax:

The speculation tax will add revenue to the government for every home that is sold within 48 months of purchase. The tax ranges from 2% to 10% on the market value depending on the selling period. However, the tax is designed to decrease the overall number of transactions taking place in the market and incentivize holding on to properties longer. This will reduce the amount of property transfer tax the provincial government takes in.

If the number of homes being sold soon after purchase goes down considerably, the highest brackets of the tax will apply to smaller numbers of transactions. Despite that, this tax will tap into capital gains from homes that were previously untaxed. This should increase government revenue.

Since the speculation tax rate is higher than the 1% to 3% property transfer tax, the reduction in revenue for the latter will be offset by gains in the former. Furthermore, evidence from Singapore suggests that many speculators sell the property in the last year of holding (Sun, 2015). If this is extrapolated to Vancouver, it could mean that the transactions prevented in the first three years of holding will be transferred to the last year of holding. The transactions will shift from one year to another and the overall revenue from property transfer tax should not go down. Overall, the tax should increase government revenue and therefore it is ranked high in this criterion.

Foreign Ownership Surtax:

The foreign ownership surtax has the smallest tax base out of the three options. It will generate revenue from the sale of property to foreign owners but the tax is designed to discourage purchases from this group. Due to the high tax rate, only buyers with inelastic demand will enter the market. The tax will generate revenue for each transaction in the market that involves a foreign buyer.

However, the tax is designed to decrease the number of homes purchased by foreign sources. The reduced demand should decrease the overall number of transactions taking place in the market. Revenue for the property transfer tax will be adversely impacted. However, the foreign ownership surtax ranges from 10% to 15%, which is considerably higher than 1% to 3% property transfer tax. The difference in tax rate should be able to generate enough revenue to offset the reductions in the transfer tax. However, potential foreign owners might circumvent the tax by using local residents as proxies for their purchases. If the regulatory body does not have the appropriate enforcement ability, there might be significant tax evasion taking place. While the tax has the potential to generate revenue for the government, it might be lost to tax evasion. Therefore, the policy is ranked medium for this criterion.

9.3. Political Impacts and Third Party Acceptance

Table 9-3. Scoring for stakeholder acceptance

Criteria	Option 1: Progressive Property Tax	Option 2: Speculation Tax	Option 3: Foreign Ownership Surtax
Is the policy acceptable to the relevant stakeholders?	**Medium**	**Medium**	**Medium**

9.3.1. Criterion 1: Is the policy acceptable to the relevant stakeholders?

This criterion evaluates the acceptability of the policy among the relevant stakeholders. The key stakeholders in this debate are the Vancouver residents, the municipal government of Vancouver, and the provincial government of BC.

Progressive Property Tax:

The tax ranks medium for this criterion. There haven't been any specific statements made by the different government levels on the Progressive Property Tax. Vancouver Mayor Gregor Robertson supports interference in the market in order to limit price inflations. His past stances on the housing affordability issue indicates that he would support a Progressive Property Tax if it achieves the desirable outcomes.

However, the province has been reluctant to support any particular policy that will dampen the housing market. Premier Christy Clark's opposition to market interference has been documented in this report in the Political Debate section. Due to her past position on the issue, it is assumed that her government will not support the Progressive Property Tax. However, the policy is easy to implement and will generate revenue for the government. If the government changes their stance on the issue, the Progressive

Property Tax might be one the accepted options. Currently, the policy ranks medium partly because of the difference in opinion between the two governments.

In a recent poll published by the Angus Reid Institute, 79% of respondents claim that the high prices are hurting the region. When asked about their preferred policy option, 79% support imposing extra property transfer tax on buyers from outside Canada, and 82% support a vacancy tax. These two taxes share properties with the Progressive Property Tax and it seems that Vancouver residents are highly in favour of the policy. 65% of respondents believe assisting first time buyers is a higher priority than preserving the equity of homes for existing owners (Angus Reid, 2015). These numbers indicate that most respondents support policy intervention in the housing market.

Overall, the public supports this policy option but it is unclear if it is acceptable for the two levels of government. Due to these reasons, the policy ranks medium for this criterion.

Speculation Tax:

The tax ranks medium in this criterion. The mayor of Vancouver has repeatedly come out in support of this policy. He believes this policy will dampen the price inflation and create revenue for the government. On the other hand, the premier has outright rejected this policy every time it has been proposed to her. For the government stakeholders, this policy has split support.

In the Angus Reid poll, 69% of respondents support the Speculation Tax in order to limit house flipping in the market (Angus Reid, 2016). There is clear support among Vancouver residents for this policy, even among existing homeowners who might lose equity due to the policy.

While the policy has acceptance among key stakeholders, the province is opposed to it. Therefore, the policy is ranked medium for this criterion.

Foreign Ownership Surtax:

The tax ranks medium for this criterion. The premier has rejected this policy, citing concerns about home equity for existing home owners (Vancouver Sun, 2015b). The Prime Minister is also reluctant to impose such a tax because it might limit investment in other sectors in the country. The mayor of Vancouver has mentioned that he is unwilling to support the tax without concrete data supporting the argument that foreign investors are contributing to the home price inflation (The Tyee, 2015). It seems that this policy is unpopular among all the relevant government stakeholders.

However, the policy is very much supported by the residents of the region. 64% of respondents believe that foreign investment is playing a key role in the price inflation. 72% of respondents in the Angus Reid poll support limiting the number and type of properties that can be sold to foreign buyers. 79% support imposing a higher property transfer tax for foreign buyers (Angus Reid, 2016). Vancouver residents overall support limiting the ability for foreign buyers to purchase properties in the market. The Foreign Ownership Surtax essentially limits access to the market for foreign buyers by raising the price. Therefore, it is predicted that the policy will be highly acceptable to the residents of the city.

The policy is ranked medium in the criterion due to the lack of support among the government stakeholders, despite having support from residents.

9.4. Other Consequences

The policy options explored in this paper have potential consequences beyond the ones mentioned in the previous sections. For instance, any reduction in home prices due to these taxes will result in a loss in equity for homeowners. Long time owners will be able to absorb some of the loss in equity due to having smaller mortgages or having entered the market at a lower price point. Recent buyers will be impacted more adversely as these buyers would have entered the market at a higher price point and have larger mortgages. The government can mitigate some of these losses by introducing mortgage renegotiation programs to minimize the impact of the loss in equity.

The Speculation Tax can also lock in homeowners to their properties for years in order to avoid paying the taxes associated with selling the home within four years of purchase. There will be some owners who will want to sell their properties for legitimate reasons and for these owners, exceptions can be built into the design to address them at an individual basis. Homeowners can also put the home in the rental market and earn additional income during the four-year period where the speculation tax is applicable. But the tax is purposefully designed to make homeownership a long term investment that keeps short term buyers from entering the market, and creating too many exceptions might defeat the purpose of the policy.

There are also concerns that homeowners who rent out their properties will transfer the additional costs associated with the taxes to their tenants. This could result in an increase in rent. However, it is unlikely that a large portion of rental property owners will face these new taxes and therefore have any market wide implications on rents. There will be more demand for rental properties from those residents that are not willing to commit to a property in order to avoid the speculation tax. The rental stock in the city is already limited and the additional demand will not help. However, many current renters will enter the homeownership market once the policies reduce the home prices in the city. This will alleviate some of the pressure on the rental stock.

9.5. Summary of the Policy Analysis

Table 9-4. Breakdown of the scoring

Objectives	Criteria	Option 1: Progressive Property Tax	Option 2: Speculation Tax	Option 3: Foreign Ownership Surcharge
Effectiveness	Will the policy lead to a decline in housing prices?	**High (3)**	**Medium (2)**	**Medium (2)**
	Will the policy discourage the use of foreign capital?	**High (3)**	**Medium (2)**	**Medium (2)**
Budget Impacts	Can the policy be easily implemented within the existing structure of the relevant government department?	**High (3)**	**Medium (2)**	**Low (1)**
	How will this policy impact tax revenue?	**High (3)**	**High (3)**	**Medium (2)**
Political Impacts and Third Party Acceptance	Is the policy acceptable to the relevant stakeholders: 1. Different levels of government 2. Vancouver residents	**Medium (2)**	**Medium (2)**	**Medium (2)**
Total		**14/15**	**11/15**	**9/15**

Chapter 10. Policy Recommendations and Implications

Based on the analysis conducted throughout this paper, the recommended policy option is a combination of the Speculation Tax and the Progressive Property Tax.

The Progressive Property Tax is the highest ranked policy out of the three options. Due to the unique nature of the Progressive Property Tax, it is able to limit the impact of foreign capital while insulating most local residents. The tax will accomplish the primary goals of this report and reduce home prices in the city by 5% to 10%. The criteria and measures analysis demonstrate that this is the best approach to cooling Vancouver's residential housing market. The policy is very easy to implement and requires very little additional resources. It is also the significant support among Vancouver residents. The policy is able to generate revenue for the government, and this can be used to persuade the government stakeholders to support this option.

However, the Speculation Tax is an all around solid policy option. It scored medium or higher in all the criterions and is successful in limiting the impact of foreign capital in Vancouver. It is able to influence the prices by limiting the number of transactions in the market. It discourages the use of foreign capital by reducing the returns from speculative behaviour. Both of these policies mitigate the effects of foreign capital but do so using different approaches. This paper recommends using both the Speculation Tax and the Progressive Property Tax to maximize the city's efforts to curb the rapid housing price inflation. The two taxes target separate consequences stemmed from the same issue of foreign capital and by attacking the problem from multiple fronts, the city can give its residents reprieve from the escalating housing prices.

The Foreign Ownership Surtax is also a strong policy option. It is able to generate tax revenue for the government and reduce housing prices in the city.

However, it is a difficult policy to implement, regulate and enforce. There are issues with tax evasion that arises with the policy. But with strong political will and sufficient resources, this option can be employed in the future to further address the issue of foreign capital in Vancouver's housing market.

The housing debate in Vancouver has been controversial and the political rhetoric around the topic has not resulted in any significant policy changes. The three policies examined in this paper can be very useful in addressing the policy problem. These policies will not solve all the issues related to housing affordability in Vancouver. But the recommended options will dampen the prices in the city and establish a system that prevents foreign capital from having such a large scale impact in the market. As the different levels of government release data on foreign capital over the next few months, there will be appeals for various policy interventions. It is important that those in charge employ the appropriate response and this paper provides them a strong recommended approach.

References

Angus Reid. (2015). Lotusland blues: One-in-five metro Vancouverites experience extreme housing & traffic pain; most of them think of leaving. Angus Reid.

Azpiri, J (2015). Petition urges Christy Clark to restrict foreign investment in Vancovuer Real Estate

Ball, D. (2015). Foreign money influencing our housing market? harper wants to know. *The Tyee*

Ball, D. (2015). Vancouver mayor: City is 'at a breaking point. *The Tyee*

Barnabic, D. (2015). Short-sighted politicians are fuelling Canada's housing crisis. *The Huffington Post*

BC Statistics (2015), Population Estimates

Bradsher, K., & Searcey, D. (2015). Chinese cash floods U.S. real estate market. *The New York Times*

British Columbia Real Estate Association. (2015). *Market implications of foreign buyers.*

Bula, F. (2015). West Vancouver 'dark' houses spark tax debate for investment properties. *The Globe and Mail*

Carrick, R. (2015). A house for three times your income? think again. *The Globe and Mail*

CBC. (2015). Canadian house price rise outstrips all but 3 other global markets.

CBC. (2016) Vancouver and other Canadian cities fare well in Mercer survey quality of living.

CBC (2015) Bob Rennie urges Vancouverites to give up on single family detached home dream.

CBC. (2015). Foreign ownership on Vancouver real estate needs 'creative' policies: David Mulroney. Retrieved from http://www.cbc.ca/news/canada/british-columbia/foreign-ownership-on-vancouver-real-estate-needs-creative-policies-david-mulroney-1.3014710

CBC. (2015). Toronto, Vancouver housing affordability deteriorates to 'risky' levels. Retrieved from http://www.cbc.ca/news/business/toronto-vancouver-housing-affordability-deteriorates-to-risky-levels-rbc-1.3209786

Census Canada, "2011 National Household Survey, Dissemination Area (DA) Level [semi-custom tabulation]", http://hdl.handle.net/10864/10520 Map and Data Library, University of Toronto

CensusMapper, http://CensusMapper.ca

Chan, C. (2015). Vancouver councillor pushing city to act on plague of vacant properties. *The Province*

Chan, C. (2015). Vancouver real estate seen as ‘safe haven’ for European buyers. *The Province*

China capital outflows rise to estimated $1 trillion in 2015. (2016). *Bloomberg*

Christy Clark vs. Gregor Robertson on solving high condo costs. (2015). *CBC,*

City recommends new protections for Vancouver’s tenants and rental housing stock. (2015). City of Vancouver.

CMHC. (2015). *Foreign owners took a bigger piece of Toronto, Vancouver condo markets in 2015.* . Canada Mortgage and Housing Corporation.

Cooper, S. (2015). Chinese money launderers snap up Vancouver real estate because of lenient border laws, loose regulations. *The Province*

Cooper, S. (2015). In a six-month period, 70% of detached homes sold in Vancouver’s west side went to mainland china buyers. *National Post*

Cooper, S. (2015). Vancouver airport acts as major entry port for millions in cash smuggled by mostly Chinese citizens. *National Post*

Cooper, S. (2016). B.C. government planning study on impact of foreign home ownership. *Vancouver Sun*

Cooper, S., & Fumano, D. (2016). Follow the money: Evidence submitted at fraud probe points to concerns about Vancouver real estate market. *The Province*

Davidoff, T. *Policy proposal: B.C. housing affordability fund.* .

Demographia (2015), International Housing Affordability Survey

Dmitrieva, K. (2015). Canada housing agency cites foreign buyer risk. *Bloomberg*

Dmitrieva, K. (2016). CMHC revs up hunt for foreign flows into torrid housing market. *The Globe and Mail*

Evans, P. (2014). Condo foreign ownership less than 2.4%, CMHC says. *CBC News*

Everett-Allen, K. (2015). *Prime global cities index.* . Knight and Frank.

Fawcett, M. (2016). The van mag Q&A: Ian young on racism and real estate. *Vancouver Magazine*

Financial Post (2015). Here's the real reason mortgage rates are so low in Canada.

Gold, K. (2015). Denying flood of foreign money makes solving housing crisis even harder. *The Globe and Mail*

Gold, K (2016). Housing speculation seems to be taking hold in West Side Vancouver. *The Globe and Mail*

Hager, M. (2015). 'Suspicious transactions' reported by B.C. banks tied mostly to china. *The Globe and Mail*

Hager, M. (2015). Raise tax on high-end Vancouver homes to lower housing prices: Expert. *The Globe and Mail*

Harris, S (2015). Real estate dreams dashed: Priced out and resigned to renting. Retrieved from http://www.cbc.ca/news/business/real-estate-dreams-dashed-priced-out-and-resigned-to-renting-1.3180437?cmp=rss

Hanemann, T., & Huotari, M (2015) Chinese FDI in Europe and Germany, Mercator Institute

Hiller, H (2007). Gateway Cities and Arriviste Cities: UCalgary

Holmes, R. (2016). Without affordable housing, Vancouver risks becoming an economic ghost town. *The Province*

Hoon, E. (2015). *More sellers selling under seller's stamp duty.* . The Edge Property.

Hurun Report. (2011). White paper on Chinese people's private wealth management. Shanghai: Hurun Research Institute.

Hurun Report. (2014). Immigration and the Chinese HNWI 2014. Hurun Report and Visas Consulting Group. Retrieved from http://up.hurun.net/Humaz/201406/20140606132402353.pdf

Jang, B. (2015). Housing sales in metro Vancouver increase, leading way for new records. *The Globe and Mail*

Jang, B. (2016). Vancouver homeowners see massive jump in property values. *The Globe and Mail*

Judd, A. (2015). Website could be in the works to identify vacant homes in Vancouver. *Global News*

Karstens-Smith, G. (2015). Vancouver's hot housing market could have negative impacts. *The Canadian Press*

Kane, L. (2016). Vancouver's empty homes not driving affordability crisis, report finds. *City News*

Kesselman, R. (2016). Attacking high house prices by making property tax progressive. *Vancouver Sun*

Knight Frank (2016) Global Wealth Report

Lee-Young, J. Gap narrows between condo, house prices in greater Vancouver . *Vancouver Sun*

Ley, D. (2015). Global china and the making of Vancouver's residential property market. *International Journal of Housing Policy,*

Lim, J. (2015). Home sellers stung by stamp duties. *The Straits Times*

Lin, Jan. (1998). Globalization and the Revalorizing of Ethnic Places in Immigration Gateway Cities, Urban Affairs Review 34, no. 2: 313–39.

Logan, N. (2015). *Because it's 2015: A conversation with the prime minister.* Global News:

Luvick, T. (2015). Vancouver mayor Gregor Robertson says sky-high real-estate prices "not a race issue". *The Georgia Straight*

Marr, G. Canada prime minister stephen harper vows limit on foreign home buyers if needed.

Marr, G. (2015). CMHC chief says foreign buyers may be behind 'substantial portion' of luxury home sales. *Financial Post*

Marr, G. (2015). Nothing can stop the Vancouver housing market, even typically slow November. *Financial Post*

Marlow, I (2015). Chinese buyers making mark on Vancouver's luxury housing. *The Globe and Mail.*

McMahon, T. (2015). More foreign buyers snapping up Canadian condos: CMHC. *The Globe and Mail*

McMahon, T. (2016). CMHC hits roadblocks in review of foreign owners. *The Globe and Mail*

McMartin, P. (2016). Province passive on metro Vancouver housing speculation. *Vancouver Sun*

Meissner, D. (2016). Mayor asks for bold action to make Vancouver housing more affordable. *Global News*

Metro Vancouver housing data book. (2015). . Metro Vancouver.

Moos, M., & Skaburkis, A. (2010). The globalization of urban housing markets: Immigration and changing housing demand in Vancouver. *Urban Geography, 31*(6)

National Association of Realtors. (2015). 2015 profile of home buying activity of international clients for the twelve month period ending March 2015. Washington, DC: National Association of Realtors.

O'neill, P. (2015). Canada a friendly home for illicit cash, corrupt real estate buys, report says. *Vancouver Sun*

Percentage of households with income lower than shelter costs. Retrieved from https://mountainmath.ca/census?layer=2

Posadzki, A. (2015). Economists applaud promise to collect data on foreign investment in real estate. *The Globe and Mail*

Posadzki, A. (2015). Foreign investors in Canada's housing market need to be counted, experts say. *Financial Post*

Proctor, J. (2016). *Budget 2016: B.C. property buyers to disclose citizenship.* .CBC.

RBC Economics. (2016). *Housing trends and affordability.* . RBC Economics.

REBGV. (2005-2016). *Monthly statistical reports.* . Real Estate Board of Greater Vancouver.

Reuters. (2016), Luxury home sales drive already hot Vancouver housing market.

Statistics Canada. (2012a). *Focus on Geography Series, 2011 Census*. Statistics Canada Catalogue no. 98-310-XWE2011004. Ottawa, Ontario. Analytical products, 2011 Census. Last updated October 24, 2012

Statistics Canada. (2012b). *Focus on Geography Series, 2011 Census*. Statistics Canada Catalogue no. 98-310-XWE2011004. Ottawa, Ontario. Analytical products, 2011 Census. Last updated October 24, 2012.

Statistics Canada. (2013). *Vancouver, CY, British Columbia (Code 5915022)* (table). *National Household Survey (NHS) Profile*. 2011 National Household Survey. Statistics Canada Catalogue no. 99-004-XWE. Ottawa. Released September 11, 2013. http://www12.statcan.gc.ca/nhs-enm/2011/dp-pd/prof/index.cfm?Lang=E

Shaw, R. (2015). Premier plays down foreign buyers' role in skyrocketing Vancouver real estate prices. *Vancouver Sun*

Shmuel, J. (2016). Why China's stock market crash is going to send more money into Vancouver housing. *Financial Post*

Sun, K (2015) Foreign Investment in Real Estate in Canada. *China Institute, University of Alberta*

Taylor, R. (2015). Australia gets tough on foreign home buyers. *The Wall Street Journal*

Todd, D. (2015). Immigration fraud on a grand scale. *Vancouver Sun*

Todd, D. (2015). Thousands of metro Vancouver mansion owners avoiding taxes. *Vancouver Sun*

Tomlinson, K. (2015). B.C. pledges to close loophole that allows some real estate investors to dodge taxes. *The Globe and Mail*

Tomlinson, K. (2015). Foreign investors avoid taxes through Canadian real estate. *The Globe and Mail*

Tomlinson, K. (2015). Vancouver house-buying frenzy leaves half-empty neighbourhoods . *The Globe and Mail*

Tomlinson, K. (2016). The real estate technique fuelling Vancouver's housing market. *The Globe and Mail*

Valentine, D. (2015). *Solving the UK housing crisis:An analysis of the investment demand behind the UK's housing affordability crisis.* The Bow Group.

van Loon, J. (2015). In north America's costliest city, rich Chinese take the blame. *Bloomberg*

VanCity. (2015). *Help wanted: Salaries, affordability and the exodus of labour from metro Vancouver.* . VanCity.

Vancouver. (2012). *Mayor's task force on housing affordability.* . City of Vancouver.

Yaffe, B. (2015). Is it time to restrict foreign property buyers? *Vancouver Sun*

Yaffe, B. (2015). Time for government intervention in real estate market. *Vancouver Sun*

Yan, A. (2015). *Ownership patterns of single family homes sales on the west side neighborhoods of the city of Vancouver: A case study.*

Young, I. (2016). In bizarro Vancouver, 25,000 households declare less income than they spend on housing alone. *South China Morning Post*