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RED TAPE

DRIVES CANADA'S HOUSING AFFORDABILITY WOES—NOT FOREIGN BUYERS

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Foreign nationals purchasing homes in Metro Vancouver and the Greater Toronto Area is a topic that continues to make national headlines, especially as housing prices rise. This came to a head recently when B.C. Minister of Finance Mike de Jong announced an additional 15 per cent property transfer tax on foreign homebuyers in Metro Vancouver.

Soon after, Ontario Minister of Finance Charles Sousa stated that his government will look “very closely” at the proposal, raising the spectre that jurisdictions across the country could follow suit. While foreign homebuyers are a convenient scapegoat for rising housing prices, an underlying yet overlooked problem is that the supply of new homes is not keeping up with demand, driven in large part by land-use regulations. Provinces and municipalities should focus on removing these barriers to new homebuilding rather than attempting to micromanage the housing market.

So far, the discussion on housing affordability has primarily focused on demand-side issues. Beyond foreign homebuyers, low interest

rates and increased demand for housing in Canada's most desirable neighbourhoods are often pointed to as factors driving up prices. While all may indeed be true—many people are happy to pay for the natural beauty of Vancouver, or to live in a global city like Toronto—these discussions ignore the fact that when a good is in high-demand, it generally spurs greater supply.

While the intention of taxes like these is to dampen demand from abroad, it isn't clear to what extent they will work.

In the case of housing, however, there can be geographical constraints on building—notably in Vancouver—which hold back supply and contribute to higher prices. But even Vancouver has the capacity to add a large amount of new housing units, which is undermined by local and provincial housing regulations and opposition to more dense development.

Indeed, a recent study by the Fraser Institute takes a closer look at the

gap between demand and supply in several large Canadian urban regions, including Toronto and Vancouver. It finds that long and uncertain approval timelines for building permits, as well as onerous fees and local opposition to new homes, slow the growth of the housing stock. The result—fewer new homes with a growing pool of buyers inevitably leads to rising prices.

Instead of targeting one segment of the housing market for a tax hike, policymakers should look to factors preventing the housing supply from keeping up with all demand. Increasing the construction of new homes in Canada's most desirable regions would, eventually, put downward pressure on housing prices.

While the intention of taxes like these is to dampen demand from abroad, it isn't clear to what extent they will work. Local housing markets are complex. There are many factors that contribute to both the supply and demand of housing construction. Attempting to control one segment of housing demand could lead to a host of unintended consequences.

For instance, if taxing foreign buyers impacts demand for residential real estate in some cities, where might that demand migrate to? The geographical limits of these taxes may simply nudge buyers towards nearby municipalities—or to Canada's other major urban centres, presenting a new set of challenges.

Policymakers are rightly concerned about housing affordability, but a jarring shift in policy could change market expectations, leading to unpredictable consequences.

In the event that the tax does significantly shift demand, long-time owners could lose out on equity they planned to use for retirement and families who recently entered the market may face difficult circumstances if their home values suddenly decline.

Instead of attempting to control the demand for housing in Canada's urban centres, provinces and municipalities should use the tools they already have to ensure that regulations allow for timely construction of new housing to meet pent-up demand.

Introducing a tax on foreign homeowners may seem like a politically expedient fix, but it misses the most critical driver of declining affordability in major metropolitan areas: the housing supply is not keeping up with demand. Heavy-handed policies could have consequences that are worse than the problem they seek to fix. 

Read the study here [»»](#)



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