

Mayor's Task Force on Housing Affordability *Academic Working Group – Foreign Investment Report*

The Academic Working Group

The Mayor's Task Force on Housing Affordability Academic Working Group was set up to generate ideas and insights about how to approach certain important issues pertaining to affordability as a means of assisting the Housing Affordability Task Force and the four themed working groups. More specifically, it was created to identify best practices and learning from other jurisdictions that could be applicable in Vancouver. Two meetings of the Group took place and during the second meeting it was determined that the impact of foreign investment on local affordability was important enough to warrant a separate report. This document summarizes the thoughts and insights presented during the discussion on foreign investment.

The members of the Academic Working Group that discussed foreign investment included: **Prof. Erick Villagomez**, Founder and Principal - Metis Design (Roundtable Chair); **Prof. Leslie Van Duzer**, Director School of Architecture and Landscape Architecture; **Prof. Penny Gurstein**, Director of School of Community and Regional Planning, UBC; **Prof. Emeritus Michael A. Goldberg**, Sauder School of Business; **Assoc. Prof. Elvin Wyly**, Assoc. Prof Geography Dept UBC; **Prof. Emeritus Stan Hamilton**, Sauder School of Business; and **Prof. Andrew Yan**, School of Community and Regional Planning, UBC and Bing Thom Architects.

Please refer to the *Mayor's Task Force on Housing Affordability: Academic Working Group – Summary Report* for a general overview of the dialogue that took place over the course of both meetings, excluding the discussion around foreign investment impacts.

Guiding Questions

As outlined in the *Mayor's Task Force on Housing Affordability: Academic Working Group – Summary Report* five guiding questions focused the discussions of the Academic Working Group – looking at priority issues pertinent to the broader discussions held by the Housing Affordability Task Force and the four themed working groups. These ranged in theme from benchmarks for housing affordability to best practices and large-scale ideas.

However, as mentioned above, the question pertaining to the impact of foreign investment on local affordability was deemed important enough to require further elaboration. The specific question asked of the Academic Working Group attendees was as follows:

- What is the impact of **foreign investment** on affordability (of housing) in Vancouver?

The subject matter of the current brief report, therefore, will summarize the key insights, pertaining to the question above, that arose from Academic Working Group discussions.

The Need for More Research Prior to Actions or Conclusions

It was clearly agreed at the beginning of the discussion that, despite a great deal of media coverage, cocktail discussion, and broad debate about the impact of investors coming into the real estate market and its impact on affordability, there is a shortage of reliable and substantial data documenting the scale and effects of such foreign investment. The complexity, time, and cost of developing a usable data set have precluded any significant comprehensive research to-date.

Accordingly, it was unanimously recommended that the City learn more about nature, scale and impact of foreign buyers on the local housing market via in-house studies and/or partnering with

organizations that are currently involved in such research *prior* to taking any particular actions or coming to any specific conclusions.

The Need to Refine the Initial Question

The question posed: “What is the impact of foreign investment on affordability (of housing) in Vancouver?” needs to be carefully considered to ensure the research efforts are directed properly. If the question is taken at face value, then in what way would the impact of *foreign* investment on affordability be any different from the impact of non-resident investors from elsewhere in Canada? Would one expect the impact on affordability caused by an investor from Newfoundland or Quebec City or Moose Jaw to differ from the impact of an investor from France or England or China, and if so, why?

Presumably all investors want the same basic outcome – a good return on their investment and manageable risk. But if, for whatever reason, the foreign investor requires special attention, one should note that any actions to curtail such foreign investment would require federal intervention since foreign ownership issues are primarily a federal matter. This then conflicts with the goal of the Task Force to find initiatives under local control.

Furthermore, it is also worth considering that any City initiative premised on the role of “foreign investment” in Vancouver’s affordability crisis will be racially and ethnically divisive. If indeed foreign investment plays a role, it is the “investment” that matters, not the “foreign.” It is the use of urban real estate for investment and speculative purposes -- not the identities or locations of those making the investments -- that potentially undermines affordability.

If one altered the research question to ask “what is the impact of a non-resident investor?” a similar issue is raised: in what way would a non-resident (including foreign) investor have any different impact than a resident (in BC) investor? Presumably these questions all arise because one believes that foreign (or non-resident) investors have a different – and more negative – impact than would be the case for local resident investors.

With this in mind, the Group agreed to attempt to address the basic question as presented, but we encourage the Task Force to recognize that foreign investment *may have* essentially the same impact on affordability as non-resident (in BC) investment. But the question can take a slightly more focused context: **“Does foreign investment, with or without occupation in Vancouver’s ‘completed housing market, impact affordability?”**

From this focused question there are several others that follow. They are presented in no particular order of importance:

- **What is the magnitude of the issue?** – Determining the scale of potential impact on affordability
- **What are the specific questions and supplemental questions requiring investigation?** – Clarity of purpose will facilitate the type(s) of information requiring analysis.
- **If investment does affect housing prices, what are *both* the positive and negative impacts, not just to affordability of housing but to the economic and social well-being of the city?** – Many commentaries tend to assume all impacts of investment are negative. This is not necessarily the case. For example, investment can stimulate supply and enable people to liquefy value bound up in their housing stock. Such investments might also make it more likely that other non-residential investments will follow.
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What is the Magnitude of the Issue?

The starting point for empirical analysis is to determine what percent of all housing – single detached or rental, etc. – is owned by foreigners or non-residents. Unfortunately, the existing empirical work is limited and hampered by the lack of and/or cost of the raw data. Other than very expensive survey

data, two data sources are available: the BC Assessment data and Multiple Listing Service (MLS) sales data.

In the case of the BC Assessment data, The BC Assessment Authority does not collect data that specifically indicates whether the owner is foreign or non-resident. However, they do have mailing addresses for tax notices and these can be used as a proxy for foreign or non-resident. But there will be some considerable slippage in the data, as noted in the *Case Study One: Foreign Ownership of Residential Properties in Metro Vancouver* section below. Moreover, privacy considerations presently prevent the Authority from making this data publicly available.

The second data source is Multiple Listing Service (MLS) used by real estate brokers to share information about properties with other brokers who may represent potential buyers. Through this system, realtors are in a position to have somewhat better – but still imperfect – information on the buyers of properties. Once again, privacy considerations limit access to this information.

We are able to cite the following two recent research reports that partially address the research question, but mostly point out the limitations of available data.

Case Study One: Foreign Ownership of Residential Properties in Metropolitan Vancouver

The first study was completed by the Urban Futures Institute. This study was deemed relevant to the discussion regarding investment due to both its findings and the processes by which information was gathered and analyzed. The following summarizes the main concepts and processes undertaken for the study:

SAMPLE:

Urban Futures acquired all residential sales for metropolitan Vancouver for 2008-2010 from Landcor – a local real estate data management company – indicating where BC Assessment sent the tax notices.

FINDINGS:

Based on these tax notice mailing addresses, Urban Futures noted that of the 55,512 residential sales in 2010, 195 were sent outside Canada. This represented 0.4% of all sales. If the sales are limited to residential condominiums, then 0.7% of the tax notices were sent outside Canada. Similar statistics are available for non-resident owners rather than foreign owners.

STUDY LIMITATIONS AND CONCLUSIONS:

The problem with the data used for the study is that many (perhaps most) foreign or non-resident owners have their tax notices sent to a BC address - a lawyer, friend, accountant etc. Hence, the best that can be concluded is that a lower limit of 0.4% of all sales most likely involved foreign owners.

Case Study Two: Ownership, Occupancy, and Rentals:

An Indicative Sample Study of Condominiums in Downtown Vancouver by BTAWorks

The research study conducted by Andrew Yan of BTAWorks - the Research and Development Division of Bing Thom Architects - focused on a slightly different, and potentially more relevant study, on empty condominiums in the downtown peninsula. This study was pertinent to the discussion regarding investment due to both its findings and the processes by which information was gathered and analyzed. The following summarizes the main concepts and processes undertaken for the study:

HYPOTHESIS:

The study began with the hypothesis that there were large amounts of empty condominiums in Downtown Vancouver (based on 2008 data).

SAMPLE:

This study used an indicative sample of Downtown Vancouver condominiums, excluding the West End. The total study sample consisted of 2,387 market units in the high-density tower portion of the 13 buildings throughout the Downtown core and selected with built dates that reflected the overall stock of condo buildings in Downtown Vancouver. The study population consisted of the following unit types: 133 (6%) studio, 1,255 (52%) one bedroom, 787 (33%) two bedroom, and 210 (9%) three/four bedroom units.

CONCLUSION:

Based on an energy consumption methodology of the amount of electricity that one contemporary refrigerator would consume in one month – 75 kilowatt/hours (kw/h) – and the assumption was that a unit would be empty if it fell below this benchmark -- 5.5% of the sample suggested that it was empty within any given month. The criterion was used upon recommendation and consultation with BC Hydro. When one raises the threshold to 100 kw/h, this percentage of potentially empty condos increases to 8.5%. The number further increases to 17%, if one uses a 150 kw/h criteria.

These patterns were similar to previous studies using a Census dataset (14 percent for the overall Downtown stock) and an alternate study conducted by the City of Vancouver in 2004 using BC Hydro methodology that showed 8-9% of units using less than 1,100 kw/hours a year.

CRITERIA EVALUATED:

The following issues were evaluated over the course of the study and give one the good sense of the complexity of the issue:

- A Measure of “Empty” Condos
- Occupancy vs. Non-Occupancy vs. Seasonally Occupied (a primary focus of the study)
- Rental vs. Owner-occupied
- Speculation and “Flipping”
- Local vs. Foreign Investors
- What Behaviours were Positive vs. Negative

OBSTACLES:

This study encountered similar problems to the Urban Futures study:

- Cost and accessibility of raw data;
- Time and resources required to process data that was made available;
- Assumptions inherent in the data, accuracy and relevance of the data to the study of the impact of investors on affordability.

METHODOLOGY:

The following four types of information were discussed and determined to be most relevant during the course of the research study:

- **BC Assessment** – This information set provides information as to where the assessment notice is being sent. Through this data, occupancy could potentially be determined based on the certain assumptions as units received their assessments at the assessed address are assumed to be owner occupied, whereas units that had their assessments sent to outside addresses are assumed to be non-owner occupied.
- **Provincial Home Owner Grant** – If a unit is an owner’s principle residence, the homeowner is a Canadian citizen or land immigrant and the unit was not valued at more than \$1.164m, then the homeowner may receive a Home Owner Grant to reduce the amount of taxes they may pay on

- their home.
- **Census** – A number of data sets are potentially relevant – i.e. “private dwelling units not occupied by usual residents” – but the relevance of the information is highly dependent on the nature of the research due to the categorization methods of the census and the fact that the census is only conducted every five years.
 - **BC Hydro** – Energy consumption data can be used to potentially determine occupancy. However, conclusions will vary based on energy consumption criteria. For example, in this study the baseline used was the amount of electricity that one contemporary refrigerator would consume in one month – 75 kilowatt/hours (kw/h) – excluding any units that have baseboard heating. As a consequence, the sample using this methodology was reduced to about 1,400 units.

Cross-referencing the information (i.e. energy consumption with Home Owner Grants or BC Assessment data with Provincial Home Owner Grant data) has the potential to increase the accuracy of the findings. However, this comes with a significant increase in resources required.

ADDITIONAL INSIGHTS:

- **Non-owner occupancy was a major element of condominium ownership in the study population** - Between two possible measures of owner occupancy, the majority of condo units in the study were non-owner occupied. Approximately 51% of the units in the study had their assessments sent to addresses other than the unit being assessed. For those units that qualified for a Home Owner Grant, 61% of units did not receive it.
For those non-owner occupied units, 87% of assessments were sent to an address in Canada with approximately half of those remaining within Vancouver. Furthermore, 2% of assessments were sent directly to locations in Asia versus 7% to the United States of America. Roughly 10% were owned by a corporate entity or numbered corporate entity and 4% were sent to an identifiable property management company.
It is worth noting that there is a possibility that units owned by non-citizens are also within the population of “corporately owned properties” or “property management firms”.
- **The number of bedrooms and unit size is the correlated to whether condominium units is owner-occupied or not, as units that have larger floor area or number of bedrooms have a tendency to being owner occupied** - Not surprisingly, at 61 percent, smaller units (less than 425 square feet) have a much higher tendency of being non-owner occupied than the general condo population at 51 percent.
- **Lower value units had a greater tendency of being non-owner occupied than higher valued ones.**
- **The condominium stock in the Downtown Vancouver composes of a sizeable proportion of the market rate rental stock** – This information was based on a literature review from research conducted by the Canada Mortgage and Housing Corporation and the City of Vancouver.

For the full study, please visit <http://www.btaworks.com/2009/05/25/downtown-%E2%80%98empty-condo%E2%80%99-phenomenon-largely-a-myth-study-finds/>

Supplemental questions requiring investigation?

The following represent a few important supplemental questions requiring attention. They are present in no particular order of importance:

- Is the potential differential impact of foreign (or non-owner occupied) investments versus owner occupied investments similar for single detached and multi-unit properties?
- Is the potential differential impact due to the fact the properties are not occupied – or not fully occupied – all year?
- Is the potential differential impact due to short holding periods (i.e., flipping or speculation)?

As noted in the two case studies cited above, the current empirical evidence does not begin to resolve these matters.

Conclusions

Based on the evidence discussed above, the Academic Working Group came to the following conclusions:

- **More research – coupled with much better data – are required to better understand investment impacts** - No concrete evidence exists showing either negative or positive impacts and the empirical conclusions of the impact of foreign investors on affordability is weak at best. . Further exploration is required.
- **Even if one accepts the findings without qualification, the evidence (5%-8% empty condo rate in the downtown condominium core) does not suggest there is an affordability crisis** created solely by investor-owned units or even investor owned units that are held vacant.
- The evidence from the study **neither proves nor disproves foreign or non-resident investment is necessarily a problem** or contributes to the affordability issue.
- **Even if we conclude that there is an issue with absentee owners, there is no obvious approach to handle the matter.**

Further Considerations

- **Rental Stock** – The City needs to think of the quality of the rental stock (i.e., do absentee landlords under-maintain their investments in real estate, overcrowd their units or are be less willing to maintain their common areas?).
- **Renter Security and Purpose-built Rental Housing** – Renters in condominium units may face a lack of security over the long term as they may have to vacate their homes should there be a change in condo ownership and the new owners decide to move into the unit. Thus, condominium rental may not necessarily replace the need for a purpose-built rental housing stock.
- **Behaviours and Supply** – The City must understand (positive and negative) behavioural patterns related to affordable housing and supply. Will adding more supply be enough - and how does foreign or non-resident investment promote or hinder new supply? Or are there certain behaviours that can contribute to affordable housing? For example, is the flipping of units by investors' a beneficial or harmful behaviour vis-à-vis housing affordability and expanding supply?
- **Public Engagement** - The City must engage citizenry – and housing affordability in a meaningful way. As such, the tone with which it approaches the public discussion must be thoughtfully considered to avoid fostering cynicism - and potential racism - directed to foreign investors, and the research approaches must be carefully thought out, well-funded and impeccable to engender trust in any subsequent findings.

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This concludes the *Mayor's Task Force on Housing Affordability: Academic Working Group – Foreign Investment Report*. The general ideas and insights of the Academic Working Group can be found in the *Mayor's Task Force on Housing Affordability: Academic Working Group Summary Report*.