How are foreign investors affecting Canada's housing market?

Categories : Housing market news, Rebate Blog

For the past few years, some cities have seen astounding rises in housing prices with no end in sight. But with Vancouver's recent drop in luxury real estate sales, it has many wondering whether this is the start of a downward trend or a small hiccup in the housing market.

To gather an exact number of foreign buyers in Canada is a difficult number to tally with the CMHC's latest report on condo buyers refraining from delving into this topic. A report produced last year by Sotheby's International Realty Canada found that foreign buyers account for 40 per cent of luxury property buyers in Vancouver, about half the buyers in Montreal and 25 per cent of the buyers in Toronto.

Many of Montreal's luxury buyers hail from China, Syria, Mexico, Russia and the US with many of them choosing to buy properties in Westmount, Outremont and downtown Ville-Marie. The majority of Vancouver foreign homeowners come from China, but there's also been more investors from Iran and the US who choose to buy homes in the Westside or North Vancouver. Toronto's foreign homeowners typically buy properties in neighbourhoods such as Rosedale, Forest Hill, the Bridle Path, the Annex, Yorkdale and Hoggs Hollow and investors typically come from the US, China, Russia, India and the Middle East.

"Toronto has been a more established market, and foreigners have been buying there for a long time," Sotheby's International Realty Canada President and CEO Ross McCredie told *CBC News*. "The difference is the foreigners have not been buying in Montreal to the same degree — and Vancouver."

While the number of foreign real estate investors in Canada are unknown, two other nations with housing markets seeing similarly high climbs in housing prices have taken action on the issue. In cities such as Sydney and Melbourne, foreign investors from China are estimated to purchase 18 per cent and 14 per cent of new homes, respectively. It's feared that the country's middle class residents are unable to buy homes due to unaffordable housing prices, which has also led the House of Representatives Economics Committee to investigate the issue to ensure that foreigners are following the policy that only allows newcomers to buy new developments.

England is looking into following Australia's lead. Knight Frank found that 69 per cent of homebuyers of a newly built home in London between June 2011 and 2013 were not British. Also, 49 per cent of those buyers weren't UK residents either.

Whether Canada's government chooses to act in a similar manner or leave the issue alone has an effect on all homebuyers. If foreign ownership is restricted, it could lead to more affordable prices since there would be increased supply. But there's also the risk that prices could see a steep drop if there's too much unnecessary supply. Meanwhile, foreign ownership could continue to drive prices of real estate upward in some cities, which makes affording a house or even a condo, much more difficult for potential homeowners.

Recently, the Canadian government made a chance to its immigrations policies and put a stop to its Immigrant Investor Program that gave permanent residency faster to residents who could pay the government $800,000. This change in policy is expected to curb some of the high end investing and affect Vancouver's housing market.

In light of Canada's continuously rising home prices, first-time homebuyers have allocated larger budgets to purchase a home. When to enter the housing market differs for everyone, but it's important to budget for all housing costs, including the closing costs.

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