CANADA'S HOUSING MARKET

May 1, 2018

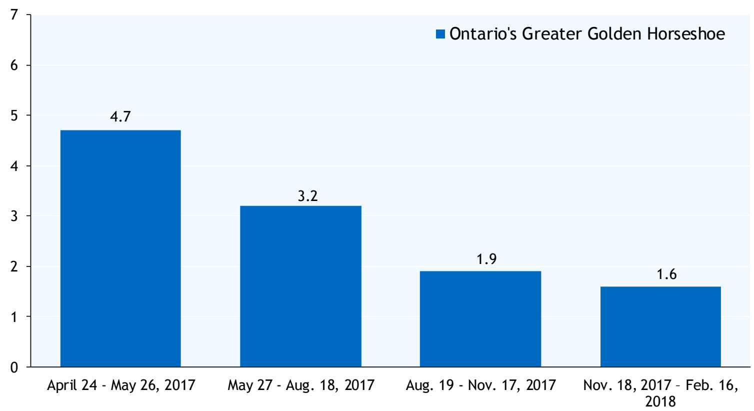
Foreign buyers now play a larger role in Ottawa than the GTA

The Greater Toronto Area is no longer the housing market where foreign buyers hold the largest sway after Metro Vancouver and Victoria. That title now goes to Ottawa, based on residential transactions between November 18, 2017, and February 16, 2018. But foreign buyers aren't suddenly rushing toward Ottawa; their interest in that market has increased only slightly in the past year. Instead, the reversal illustrates the extent to which foreign buyers have reduced their involvement in the GTA market since the Ontario government introduced its Fair Housing Plan in April 2017.

Ontario's foreign-buyer tax had an impact. The introduction of a 'non-resident speculator tax' in April 2017 as part of Ontario's Fair Housing Plan shook things up in many housing markets across Ontario. The tax dampened foreign buyers' participation in markets where the tax applies—those in the Greater Golden Horseshoe (GGH) region. The share of residential transactions involving foreign buyers fell steadily in the region from 4.7% in April-May last year to 1.6% recently, according to Ontario government data. The decline was most pronounced in the GTA, where it dropped from 5.9% to 2.1%. On the other hand, there was a slight opposite effect in regions not covered by the tax. Among them was Ottawa. It saw the foreign buyers' share of transactions rise from 2.1% in April-May 2017 to 2.5% between November 2017 and February 2018.

Foreign buyers' share of residential transactions

Foreign transactions as % of total residential transactions

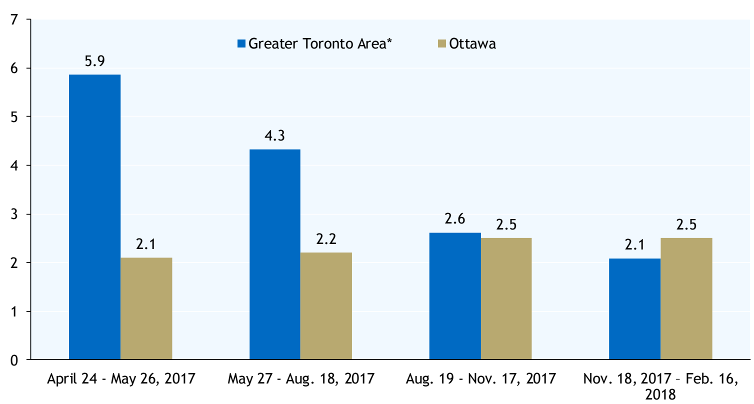


Source: Ontario government, RBC Economics Research

Did the tax send foreign buyers Ottawa's way? It's hard to know. That being said, it may well be the case that the overall Fair Housing Plan ended up diverting a number of foreign buyers toward the nation's capital. That's because the plan generated substantial market volatility in the GGH (especially Toronto) whereas Ottawa's market has fared quite well in the past year. It's likely that some foreign buyers have been attracted by Ottawa's relative stability and good prospects. Yet it's worth stressing that the uptick in foreign buyers' involvement in the Ottawa market has been subtle. If there was any movement from the GGH to Ottawa, it was minimal.

Opposite trends in the GTA and Ottawa

Foreign-buyer transactions as % of total residential transactions



* Toronto, Durham, Halton, Peel and York regions.

Source: Ontario government, RBC Economics Research

Ontario's experience differs from British Columbia's. There, the introduction of the 15% foreign-buyer tax in August 2016 led to both a sharp drop in foreign buyer involvement in the Metro Vancouver market (where the tax applied) and a significant rise in Victoria (not covered by the tax at the time). Foreign buyers' share of transactions in Victoria rose by one-third on average in the six months following the tax. These developments clearly point toward some degree of foreign buyer diversion from Metro Vancouver to Victoria.

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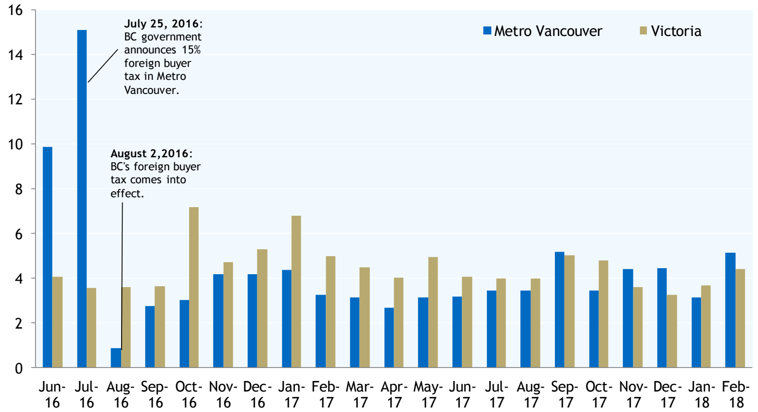
When it comes to foreign buyers, there's little to worry about at the moment. It's never been clear to us that they posed a threat to housing markets across the country, though we clearly saw evidence that foreign buyers were a factor behind rapidly rising prices in certain pockets and market segments of the Vancouver and Toronto areas. The fact that foreign buyers now play much lesser roles in both markets (thanks to policy interventions) should bring some comfort to those who had concerns. Others will take solace in foreign buyers keeping a toehold in those markets despite the extra levies they must pay—seeing this as a sign of continued confidence. One of the risks arising from foreign buyer involvement in a housing market, of course, is that it may become a source of instability if foreign buyers bail.

Foreign-buyer involvement in residential transactions

Foreign-buyer transactions as % of residential transactions, British Columbia



Source: BC government, RBC Economics Research