CANADA

The new tax had a strong impact on the Vancouver real estate market in August

On August 2, 2016, the British Columbia government introduced a new 15% tax on home purchases by foreigners in the Vancouver area, with the goal of reining in the region’s galloping housing market, which is particularly subject to high demand from foreign investors.

At this point, that measure appears to be very effective, to say the least. Sales of existing properties tumbled by 18.8% in the Greater Vancouver area in August. This is the sharpest monthly drop since February 2010. The average price in Greater Vancouver also fell by 18.8% in August, far and away the worst monthly slump since these statistical data were first collected, in 1988.

These major corrections come on top of the gradual slowdown that had already been observed in the Greater Vancouver market since last spring. The average price of existing homes dropped below the $1M mark in August to $846,244. Greater Vancouver thus forfeits its top spot in Canadian home prices, in favour of the York region of Ontario, which is posting an average price of $943,499.

In light of this new tax, some observers were worried that foreign investors might turn their backs on Greater Vancouver and look instead to Toronto and Montreal; that could inflate demand and prices in those markets. On this point, the August data are quite reassuring. Sales did indeed head up by 2.1% in Metropolitan Toronto in August, but monthly growth of that calibre is not unusual for that market, given the volatility of monthly data. As for the Greater Montreal area, sales declined by 2.2%. Thus, there are really no tangible signs of a displacement of demand.

That said, caution is called for in analyzing these data. One month does not a trend make, and it will take some time to validate whether the Greater Vancouver housing market is contracting, and to determine what the repercussions are on the other markets.

Implications: Although it is still too soon to draw firm conclusions about the total impact of the tax on foreign homebuyers in the Vancouver area, the August data are a giant step in the right direction. Needless to say, the British Columbia government will be analyzing the situation in the months to come. It may not be necessary to introduce any additional restrictive measures.

While a slowdown in the Greater Vancouver housing market is desirable, since it reduces imbalances and probabilities of a correction, it nevertheless represents a significant risk to the province’s economic growth. Home building and home transfer costs have been making substantial contributions to B.C.’s real GDP growth in recent years.

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