Seller Beware:
The Impact and Consequences to Date of Asian Investment in Metro Vancouver's Real Estate Market

BY WILLIAM McCARTHY, CRE®

INTRODUCTION

No city on Earth's residential real estate market has been more affected by a targeted and concentrated Asian investment, particularly that from China, than Vancouver, British Columbia. While only the perspective of time will define the consequences of this growing control over large segments of the region's housing markets, its impact on affordability and the region's overall economy is not positive. What are the lessons for other regions seeking the quick fix of offshore investment, in particular those learned from the Vancouver experience? The circumstances that have made Vancouver the epicenter for Asian investment cannot be readily duplicated, and evidence increasingly indicates that they should not be.

This rapid and unplanned rise of Asian investment in Metro Vancouver has led to, contributed to, and greatly accelerated the following:

- A virtual destruction of traditional housing affordability models. By the second quarter of 2011 the average price of a detached home in Vancouver was $843,300 (which would currently purchase only a modest residence). To fund this average residence now requires an impossible 95.5 percent of household income. Canada's largest bank now raises the possibility that in Vancouver "home ownership is becoming a far-fetched dream."[1]
- A corresponding rise in overall local household debt to unsustainable levels;
- A severe shortage in affordable rental stock;
- A speculative real estate economy superseding much of the traditional mixed-use and balanced economy as a taxation driver;
- Provincial and local governments that increasingly involve themselves in the real estate market, dependent on the taxation and fees, and in the process distorting the risk/reward property development matrix;
- Wordy, expensive and unproven green initiatives being used to partially justify land use policies and high housing costs;
- Evidence that foreign investors may have no permanent commitment to local communities other than their financial involvement, nor an interest to assimilate.

On June 15, 2011, Mark Carney, the governor of the Bank of Canada (the equivalent of the chairman of the U.S. Federal Reserve), spoke before the Vancouver Board of Trade to once again warn Canadians about the bank's growing concern over this country's overheated housing market and unprecedented levels of personal and household debt. With the average Canadian spending 147 percent of annual income (on par with the U.S. and the

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worst of Europe),[2] and most of this debt tied to housing costs, the governor has consistently warned Canadians not to rely on ever-escalating housing prices to keep them solvent.

That Carney chose to speak in Vancouver was no coincidence. It was a deliberate attempt to warn Canadians and, in particular, Metro Vancouver residents, that their debt was unsustainable and that with interest rates eventually rising and continued global economic challenges, the vulnerability of this region of Canada was particularly troublesome:

> *While Canadians have seen the value of their real estate holdings rocket upwards some 250 percent in the last twenty years, vastly outpacing increases in consumer prices and incomes, it hasn't necessarily left the country better off. Some people in this room may have been enriched by recent developments, their children and neighbors may have been relatively impoverished.*[3]

While Carney acknowledged that Vancouver has always been Canada's most expensive housing market, even with its heavy Asian investment, the housing fundamentals and trend lines were negative. Furthermore, the Bank of Canada would not provide future stimulus or policy to extradite this or any other Canadian market should Canada experience the bursting (or leaking) of its real estate bubble. "We cannot manage monetary policy for a specific housing market or specific region."[4]

The rise of China's economy has been monumental, as has been its global home buying spree. Much of this capital went to Australia, the United Kingdom and Vancouver—a continent, a country and a city. Currently, only Vancouver has not enacted legal and tax deterrents to prevent, or at least curtail, foreign speculation and multiple purchases in its housing markets, something even China has been forced to do.

Has the Asian influence on Metro Vancouver and Canada's housing markets prevented this country from experiencing the bursting of a housing bubble such as has occurred through the U.S. and much of the world since 2008, or has it priced locals out of their own market and undermined the western gateway to Canada, its economy and future? If an objective cost/benefit analysis were to be performed, the Asian impact on Vancouver's real estate markets, what would the outcomes be? Currently, much of the analysis available is overly subjective, self-serving, largely anecdotal, and immature, such as when local realtors tell the international press that Vancouver real estate is a "sport, and realtors are rock stars," or that Vancouver's pricing is so high because we have become a "resort city."[5]

This is particularly pertinent as China continues its global expansion in light of its own difficulties back home. While Chinese investment in Vancouver's markets currently shows no sign of slowing, China is also spreading its funds and risks around the world. This includes the U.S., where year-to-date March 2010–2011, the percent of foreign purchases by Chinese in the U.S. grew from five to nine percent, with their investments focused in California's Silicon Valley, Hawaii, Las Vegas and New York.[6] While nine percent is considerably less than the 23 percent of foreign purchases made by Canadians in the American market, the Chinese are now the second-largest foreign investors in American real estate.[7]

GREATER VANCOUVER: THE SETTING

Greater Vancouver is one of the most naturally beautiful and cosmopolitan cities in the world. Situated in the Pacific Northwest in a natural rain forest setting, Greater Vancouver, now known as Metro Vancouver, is 50 kilometers (30 miles) from the American border and 220 kilometers north of Seattle, a city with a similar physical setting and climate. Both are major port cities.

Figure 1

British Columbia

Source: Davenport Maps

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There are increasingly two Vancouvers— the downtown peninsula with its ongoing transformation from a commercial centre to one dominated by high-rise condominium towers, and the rest of the city.

Vancouver is a young city, having been incorporated in 1886. Named after British explorer George Vancouver (1757–1798), the city and British Columbia reflected this British heritage, culture and demographics for most of its first century. Despite its international reputation, it is also a relatively small city with a population hovering around 600,000, making it the 580th largest urban city on Earth.[8] Approximately 2.1 million of British Columbia's total population of 4.5 million reside in the 21 cities that comprise the administrative entity known as Metro Vancouver.[9]

Figure 2

Metro Vancouver

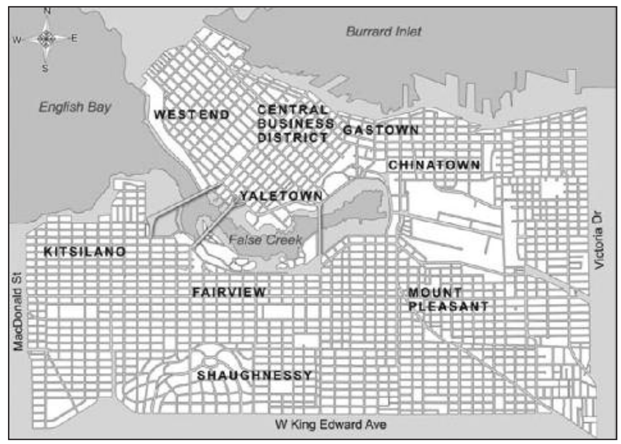
Source: Metro Vancouver

The City of Vancouver itself is relatively small in both population and geography. Its most stunning and beloved feature is Stanley Park, the 1,000-acre northern isthmus which is connected via the Lion's Gate Bridge to the North Shore mountains. As an active port city with a mountain backdrop, the city, especially the downtown corridor, is visually stunning. It is this prime section of real estate, formerly known as the Downtown Business Core, that has been transformed from the economic and cultural hub of the province into the epicenter of Metro Vancouver's real estate frenzy. (The downtown core was profiled both during the 2010 Winter Olympics and the recent Stanley Cup riots.)

There are increasingly two Vancouvers—the downtown peninsula with its ongoing transformation from a commercial centre to one dominated by high-rise condominium towers, and the rest of the city. The downtown core is the home of the urban planning and architectural style known as "Vancouverism," which refers to slim high-rise office and residential towers situated in a dense urban setting which successive planners have been trying to make increasingly less dependent on automobile traffic.

Figure 3

Central and Downtown Vancouver



Source: City of Vancouver

When most people see images of Vancouver, they are of the northern peninsula, formerly known as the central business district, with Stanley Park to the northwest and the stunning view of the North Shore mountains across Burrard Inlet to the north. What was formerly the commercial centre of the province is now the centre of Vancouver's condominium boom and the urban planning and architectural style known as Vancouverism.

Urbanists and city planners who share notes are enamored by Vancouver, or at least by its small but increasingly transformed downtown core. It is often cited as an example of world-class innovative urban planning. Several former civic officials, planners, architects and developers actively try to export Vancouverism to other jurisdictions. In order to keep this franchise alive, there must be ongoing development and investment into the city core. And as Vancouver has ceased being a head office city, with a declining business base, it has been the residential market that has fueled development, and this has largely been condominium projects, many funded by and increasingly owned by, offshore investors.

Harvard University Professor Edward Glaeser's *Triumph of the City* is one of the more provocative of a recent series of books that promote the rise of the city state, especially through intensive densification and "sustainability." For Glaeser and his fellow urbanists, the city is "both humanity's greatest invention and our best hope for the future."[10]

In order to sustain this thesis, Glaeser has to provide some examples of cities that meet his definition. In chapter nine of his text, entitled "How Do Cities Succeed," he provides nine examples from around the globe including Vancouver. These brief civic profiles include Tokyo ("the Imperial city"); Singapore and Gabrone ("the Well Managed city"); Boston, Minneapolis and Milan (the "Smart city"); Chicago and Atlanta (the "Growing city"); and Vancouver, which he proclaims to be the "Consumer city."[11]

All of these vignettes are brief, with few facts or figures to complicate his general thrust. With regard to Vancouver, Glaeser chooses to spend much of the three pages reviewing the past works of controversial Vancouver architect, Arthur Erickson (whose most noted work occurred 30–40 years ago), and to highlight the role and importance of Canada's open immigration policies, specifically with regard to the Asia Pacific:

> *Good urban planning, along with Canada's eminently sensible immigration policy, has helped Vancouver attract human capital. A full 40 percent of the city's population is foreign-born, and a quarter of its citizens were born in Asia. More than half of the people who came to the country in 2006 have a college degree, making them far better educated than native Canadians. Also, nearly half of the Canadians with a Ph.D. were born somewhere else. . . . Those immigrants have helped make the city culturally interesting and economically vital . . . from restaurants to skyscrapers to investment houses, Vancouver immigrants have helped turn a picturesque logging town into a global city.*[12]

Glaeser's superficial and dated overview of Vancouver can be increasingly challenged by data on both the livability and affordability of the city, as well as the actual impact on and commitment to the city and region that recent immigrants have shown. (Only about 10 percent of recent Chinese purchasers speak English, according to anecdotal reports by Chinese-Canadian realtors who facilitate their purchases.)[13]

VANCOUVER: THE MOST LIVABLE CITY ON EARTH; OR THE 29TH "BEST PLACE" TO LIVE IN CANADA

According to the annual ranking compiled by The Economist Intelligence Unit, for most of the past decade, Vancouver was "the most livable city in the world." This and similar subjective rankings are always presented as evidence that Vancouver is not only a world-class city, but one on which other cities should model their urban planning. (The city's pride and self promotion were set back this year when Vancouver unexpectedly fell to third place in *The Economist's* rankings.)

The Economist ranking of 140 cities is based upon 30 factors spread across five areas: stability, healthcare, culture and environment, education and infrastructures. The 2011 livability ranking and each city's score out of 100 points is as follows:[14]

Figure 4

The Economist's 2011 Ranking of the Most Livable Cities in the World

Melbourne	**97.5**
Vienna	**97.4**
Vancouver	**97.3**
Toronto	**97.2**
Calgary	**96.6**
Sydney	**96.1**
Helsinki	**96.0**
Perth	**95.9**
Auckland	**95.7**

Source: The Economist, *Aug. 31, 2011*

Conversely, in a different ranking by *Money Sense* magazine, for the same year, Vancouver ranked as only the 29th best city in which to live in Canada, among 180 cities or towns with a population greater than 10,000. In this ranking, which placed considerable emphasis on the cost of living, housing affordability, crime and climate, Vancouver scored considerably lower than several Canadian metropolitan areas.[15] Whereas the *Economist* survey of most livable cities focused on image and subjective analysis, the *Money Sense* ranking zeroed in on the costs and more mundane aspects of living in a city or town, and how these affected livability.

SOME CHARACTERISTICS OF METRO VANCOUVER'S HOUSING MARKET

Metro Vancouver, and specifically the City of Vancouver, has long been, by a significant margin (historically by a factor of two times), the most expensive housing market in Canada and one of the most expensive in North America. There has traditionally been a premium placed on housing in this region because of Vancouver's beautiful natural setting, lifestyle and its emergence as a young global city.

Real estate has always played an active role in the region's economy. Canada's first real estate board was established in the city at the time of its incorporation. (In Canada, real estate regulation is a provincial jurisdiction). The province and local real estate boards are extremely well organized and administered, and provide excellent services and education programs for their large membership.

However, in recent years the cost of housing and the affordability gap in Metro Vancouver has entered an irrational phase. Low interest rates, foreign investment, and restrictive land use and transportation policies promoted and favoured by some politicians and planners all combine to encourage high density residential towers and attempts to limit the use of the automobile. Metro Vancouver has become one of the top three most expensive housing markets in the world.

The condominium market has fueled much of Vancouver's recent real estate activity as these are very basic developments and Vancouver is one of the premier pre-sale markets in the world. It has been the norm for condominium projects to "sell out" within hours or days of being offered on the marketplace, something actively hyped and promoted by the local media as further examples of the region's "red hot" real estate market. But the "purchases" are essentially assignable options to purchase. Many of these condominium projects were bought on speculation by both novice and sophisticated investors trying to profit from a flip or, if necessary, a rental unit. With units being purchased for as little as five percent down, low interest rates and extraordinary long amortization periods (at one point 40-year amortizations were available), the risk element was minimized in the eyes of many, as pre-sales typically are done two to three years before the building is even constructed or ready for occupancy.

One negative consequence of this condominium boom has been what is referred to as "Vancouver's Leaky Condo Crisis," which has resulted in numerous reports including a provincial enquiry. Because of changes in applicable building codes, poor design, poor workmanship and Vancouver's often rainy and inclement weather, many condominium projects have faced ongoing repairs and upgrades, with property owners receiving special assessments for their proportionate shares of remediation. It has been a multi-billion dollar crisis in the province and specifically Metro Vancouver. With so many condominium sales being of the pre-sale variety, a purchase can be risky.

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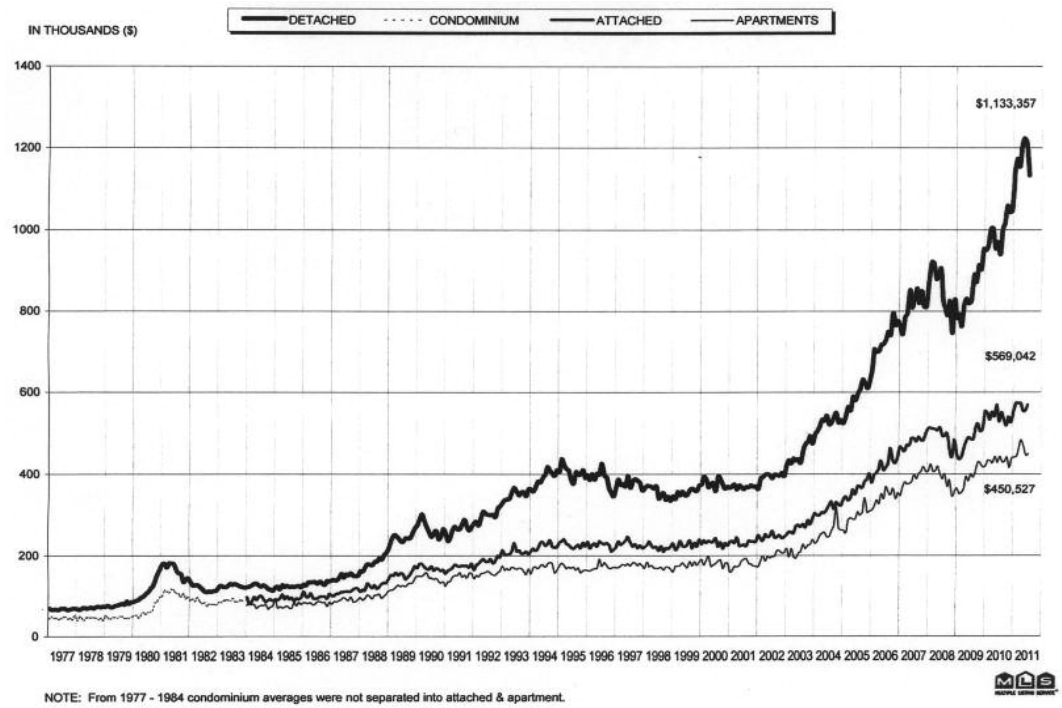
With condominiums and townhouses now accounting for approximately 60 percent of residential sales in Metro Vancouver,[16] one might assume the dense vertical construction and increasingly small size (400 to 1,200 square feet is common) would cause housing costs to stabilize, or at least to not escalate. The opposite has occurred. The following are residential average sale prices, as reported by the Real Estate Board of Greater Vancouver, from January 1977 to July 2011. As of this article's writing, the average detached home in this market is $1,133,357, with townhouses averaging $569,042 and condominiums at $450,527.[17]

Figure 5

Vancouver Residential Sales 1977-2011



Source: Real Estate Board of Greater Vancouver

How do people in Metro Vancouver afford their homes, especially first-time purchasers? This is the key question that has not been answered fully to date, and will determine if Vancouver's housing bubble bursts spectacularly, leaks slowly, or continues to defy logic and remain one of the most expensive and unique housing markets on Earth.

The ultimate determinants will be affordability and basic housing fundamentals. In contrast with the U.S., Figure 6 shows data from the National Association of REALTORS®.[18]

Figure 6

National Association of REALTORS Median Priced Single-Family Home United States Housing Affordability Index, June 2011

REGION	MEDIAN PRICE	MEDIAN FAMILY INCOME	QUALIFYING INCOME	PAYMENT AS A % OF INCOME
National	$184,600	$61,537	$36,960	15%
Northeast	$260,600	$70,830	$52,128	18.4%
Midwest	$148,800	$60,951	$29,760	12.2%
South	$161,500	$56,184	$32,208	14.3%
West	$245,800	$64,885	$49,632	19.1%

Source: National Association of REALTORS®

The wide gap between these American and the following Canadian prices is dramatic. (It should be noted that mortgage interest deductibility is not permitted in Canada, as it currently is in the U.S. Also note that the American statistics are median prices whereas the Canadian prices are averages.) The housing affordability measure used in the Canadian examples is the percentage of disposable income required to fund the applicable mortgage payments, property taxes and utilities.[19]

Figure 7

Standard Canadian Two-Storey Detached Home Average Price Second Quarter 2011

REGION	AVERAGE PRICE	QUALIFYING INCOME	HOUSING AFFORDABILITY MEASURE
Canada	$393,000	$ 87,900	49.3%
British Columbia	$664,000	$131,400	76.6%
Vancouver	$843,300	$163,100	95.5%

Source: Royal Bank of Canada Economic Research, June 2011

Figure 8

Standard Canadian Condominium Average Price Second Quarter 2011

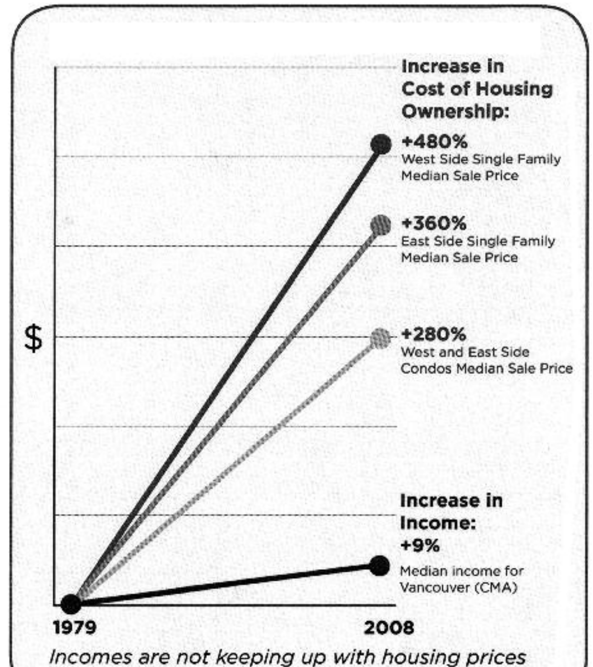
REGION	AVERAGE PRICE	QUALIFYING INCOME	HOUSING AFFORDABILITY MEASURE
Canada	$230,000	$ 52,000	29.2%
British Columbia	$312,300	$63,200	36.8%
Vancouver	$410,800	$80,500	47.1%

Source: Royal Bank of Canada Economic Research, June 2011

The two Canadian tables show that even with some distortion based upon the most expensive Metro Vancouver sub-markets, and despite the advantage of record low interest rates, reduced down payments and extended amortization schedules, the local household incomes cannot afford these units. Therefore, the influence of foreign investment is perhaps far greater than currently understood or reported. Figure 9, produced by the City of Vancouver, shows the growing and irrational disconnect between housing prices throughout Vancouver and local household incomes, which essentially have remained stagnant with some inflationary increase over thirty years.[20]

Figure 9

Vancouver's Income and Affordability Gap



Source: City of Vancouver

While Vancouver's housing market continues to rise, most analysts project an eventual "price correction" in the 15–20 percent range, with some more bearish forecasters stating the correction could be up to 40 percent. Any significant deflation could be catastrophic, as many Canadians are relying on household debt to be neutralized by ever-increasing housing values.[21] (By contrast, Seattle, which shares many characteristics with Vancouver, currently has an estimated one-third of all its region's homes "under water," with the home values less than their current mortgage).[22]

Perhaps somewhat late in the game, financial institutions themselves are now joining the Bank of Canada in warning Canadians about their "torrid love affair with credit, seduced by easy access to low borrowing rates . . . Canadian housing valuations are raising eyebrows."[23] This is especially true with regard to Metro Vancouver, a single market which can, and does, impact the entire national housing cost averages.

> *Vancouver home prices have risen by a frightening 23 percent over the past year, merely the continuation of a highly caffeinated trend. Unsurprisingly, affordability has suffered. … Projecting affordability once interest rates have normalized is even grimmer: Vancouver home prices will be 40 percent too high for fixed-rate borrowers, and 38 percent too high for variable rate borrowers. Clearly, Vancouver is an extraordinarily pricey market. Arguably, some premium is warranted due to its physical beauty, attractive climate, limited land mass and Asian investment. . . . There remains a significant and growing affordability gap in the city, and it should be viewed as the canary in the coal mine for the rest. Whatever happens to the country, Vancouver should lead the way.*[24]

The only reprieve this and similar reports give with regard to the affordability gap is the possibility that if one excludes the top 20 percent of the market, where most of the recent Asian investment has been, then housing prices and the affordability gap are lessened enough to limit the size of a future pricing correction and its impact on homeowners. Regardless, as with any pricing model, it is the top end that always pushes the prices up across the board. This is what has occurred in Vancouver, in large part due to foreign investment and a shift in control of much of the local real estate markets.

CANADA: A LAND OF IMMIGRANTS OR A NATION OF EMIGRANTS?

Canada has an enviable and well established reputation as a very accommodating and welcoming country with regard to immigrants. Unquestionably, Canada will require a steady stream of skilled immigrants to fuel its economy because of its current low birth rate and the sheer geographic size of the country.

The Chinese in particular have been a long-term presence in Greater Vancouver and British Columbia. Thousands of Chinese laborers were brought to Canada in the 1880s to work (and die) during the construction of the Canadian Pacific Railway. Subsequent immigration from China and the Asia Pacific was slow but consistent during the last century. Many of these immigrants showed a tremendous entrepreneurial zeal and quest for education, often in the face of prejudice, and in turn, became well integrated and successful members of the multi-ethnic society that predominates Greater Vancouver. With Communist control of China after 1949, Chinese immigration increased steadily and included many who migrated from Taiwan. As Hong Kong was a British territory and, like Canada, part of the British Commonwealth, access to and from Canada was relatively easy. And after the Tiananmen Square uprising of 1989, leading up to China's reclamation of Hong Kong in 1997, many Chinese became what is known as satellite investors and residents, purchasing homes and businesses in Greater Vancouver as a hedge against the political and economic uncertainties of China, while remaining residents of China or both.

According to Statistics Canada, as of 2006, Metro Vancouver's 2.1 million residents consisted of 42 percent visible minorities, with 18.2 percent of Vancouver's total population Chinese. (By contrast, Greater Toronto's population, which is approximately three times that of Metro Vancouver, has an estimated Chinese population of 9.6 percent).[25] Approximately 70 percent of visible minorities in Vancouver were born outside Canada, with two-thirds of these coming to Vancouver in the last fifteen years. Almost 75 percent of the Chinese in Vancouver were born outside Canada.[26] To see the rise and scope of recent immigration throughout the entire Vancouver region, click on an interactive map adapted from Statistics Canada at *http://www.vancouversun.com/news/vanmap/5241636/story.html.*)

The impact of this huge demographic and cultural shift on a relatively small region is yet to be fully understood or quantified. Perhaps the biggest question to be answered is how deep and lasting are these recent immigrants' commitments to Canada and Metro Vancouver? If there are assimilation and firm roots planted, as was the case in generations past, then this foreign capital and population will transform Metro Vancouver significantly. However, if this relationship is one of convenience, then the consequences may be detrimental, including a decline in housing affordability, a rise in foreign control over the region's economy, and a lessened sense of community and cohesiveness.

Recent evidence indicates that we are simultaneously a nation of both immigrants and emigrants. An astonishing 2.8 million Canadians, fully nine percent of our country's population, live abroad while retaining the rights of Canadian citizenship. According to the Asia Pacific Foundation of Canada (formed to facilitate Asian-Canadian relations), proportionally, about five times as many Canadians as Americans are likely to be living abroad.[27] "The demographic shift towards significant emigration will eventually force Canada to confront a long established ambivalence to citizens living beyond its borders."[28]

The percentage of Canadians living abroad is extremely high as a proportion of the country's population. At 8.8 percent, only the United Kingdom at 9 percent is higher. By contrast 4.3 percent of Australians, 3.3 percent of French, 2.6 percent of Chinese and 1.7 percent of Americans live abroad.[29]

The Canadian diaspora is widespread, with Canadians residing in virtually every country on earth. Not surprisingly, the majority of foreign-based Canadians are in the U. S., followed by the Asia Pacific. The following are the major countries of choice for the Canadian diaspora, of which 58 percent are Canadian born:

Figure 10

Where Canadian Citizens Live Abroad

United States	**1,062,640**
Hong Kong	**300,000**
United Kingdom	**73,000**
Lebanon	**45,000**
Australia	**27,289**
China	**19,990**
South Korea	**14,210**
Japan	**11,106**

Source: Asia Pacific Foundation, June 2011

WHAT HAVE BEEN THE COSTS AND BENEFITS OF RECENT FOREIGN INVESTMENT?

A recent Asia Pacific Foundation of Canada reported that "Canadian government policy discourages attachment to Canada among its diaspora," (who will) be a growing threat to Canada's free public healthcare system and heavily subsidized educational system—while at the same time their taxes are paid and their expenditures are made in foreign countries."[30]

To encourage immigration of high net worth and entrepreneurial-focused immigrants, Canada has established various programs to encourage immigration by what are referred to as investor-class immigrants who currently must have a net worth of at least $1.6 million Canadian. Approximately 55 percent of this class of immigrants came to British Columbia, specifically Metro Vancouver.[31] While the net worth requirement has steadily increased, the impact these new immigrants have had on local economies, other than their real estate markets, is hard to measure. Indeed, any discussion about Canada's immigration policy, which tries to balance family reunifications, refugees and work force requirements, is sensitive in this country. Cost and benefit analyses of Canada's immigration policies are even more controversial. Recent studies by the conservative think tank The Fraser Institute, indicate that currently, new immigrants to Canada cost the federal government between $16.3 and $23.6 billion in various social services and other costs, and that it may take up to ten years of support before immigrants become revenue generators.[32]

The Province of British Columbia, like most jurisdictions, has undergone significant pressures on its budget expenses, while its revenue streams, especially its traditional resource taxation, have declined. The province currently runs a deficit on its 2011 budget of $41.8 billion, of which $18.166 billion is by way of direct taxation including income and corporate taxes. Fully 13 percent of this taxation revenue comes from one of the world's few carbon taxes ($740 million), and the traditional "sin" taxes: tobacco ($730 million) and liquor ($897 million).[33]

Showing just how important an active real estate market has become for the provincial budget, British Columbia currently generates $1.891 billion of its taxation revenue from property taxes and a further $850 million by way of its property purchase tax. (In 1987 the province implemented a property purchase transfer tax on property sales. This tax is based upon an assessment of one percent on the first $200,000 and two percent on the balance of the purchase price).

With 15 percent of the province's taxation revenue coming from property taxes, and the provincial debt currently sitting at $47.757 billion, up 30 percent[34] in just the past four years, it is obvious why the province itself is reluctant to curtail either foreign investment or hyperactive real estate markets.

(An interesting contrast is presented by another tax source. British Columbia has long been known as a resource rich jurisdiction, especially with regard to its softwood lumber, the finest in the world. Currently, because of world market conditions, the taxes derived from forestry sales amount to only $422 million, half of the province's property purchase tax, and a fraction of the

$1.071 billion the province receives from its new growth industry, casinos and lotteries.)[35]

Canada and British Columbia are extremely generous with regard to social services, healthcare and education. In British Columbia, 49 percent of the direct taxation revenue goes to the healthcare budget, while 28 percent goes toward education.[36] There is generally universal access to these public health and education systems. It is also a relatively straightforward process to become a Canadian citizen. The current guidelines include living in Canada for at least three of the past four years, knowing one of Canada's two official languages (English or French) and "learning about Canada."[37]

Therefore, owning Canadian real estate, regardless of its cost, and especially holding Canadian citizenship, provides extremely favourable access to the Canadian social safety net. These benefits, as well as the natural beauty of Canada, its political and societal stability, diverse ethnic and cultural makeup, educational systems, and the ease of access into its markets are most often cited as the prime motives for those immigrants looking to invest in Canada.

WHY CITY GOVERNMENTS WANT ACTIVE REAL ESTATE MARKETS

Not surprisingly, politicians, planners and bureaucrats as well as the local real estate and development communities focus hard on promoting the image of Vancouver as the most livable city in the world. This allows them some defense of high housing costs and property taxes. This image is also used to justify land use and zoning policies and restrictions, and political objectives. The current City of Vancouver now has as its cornerstone to eliminate homelessness by 2015[38] and make the City of Vancouver the "greenest" city on Earth.[39]

Despite the well-founded skepticism within the real estate and development community as a whole and the public at large about the twin goals of eliminating homelessness and transforming a former resource-based city into a green economy, considerable energy and resources from the City of Vancouver and Metro Vancouver are being directed at these two targets. To fund them requires an increasingly active residential real estate market, as the commercial and industrial markets continue to stagnate. The City of Vancouver also requires a high property tax base and ongoing development fees simply to meet its growing payroll. For every 100 people who work in Vancouver, three are municipal employees.[40]

British Columbia and the City of Vancouver have an ad valorem property tax system whereby the local government sets a mill rate that is charged against the provincially assessed value of the property. By statute, local governments in this province cannot run deficit budgets, so they simply adjust the property mill rate and raise taxes to meet their expense needs. It is therefore in their best interest from a taxation standpoint to have high property values from which the taxable property base can be extracted from. The tax rate gap between residential and commercial property owners is significant, with business owners paying on average about six times the rate of residential owners, and without a vote in municipal elections. This tax system works very well for local politicians and growing bureaucracies. Of the City of Vancouver's 2010 operating budget of $961 million, 63 percent came from property taxes, with 18 percent from user fees and other charges (including development cost charges), and the balance of 18 percent from utility fees.[41]

In addition to their property tax control, local governments also generate significant revenue from development cost charges and "amenity surcharges." In recent years Metro Vancouver has seen considerable trade-off with regard to zoning and density issues. Developers seek bonus densities and favourable rezoning while local governments in turn extract higher development cost charges and permit fees, and quite often amenities such as the developer's providing some "non-market and affordable housing" within their projects, community space or other charges or conditions. It is now not uncommon for those within the real estate industry to contribute to the political campaigns of several parties, often simultaneously, regardless of ideological concerns. The development industry together with the municipal employee unions are the largest financial contributors in civic elections.

In such an active market, developers have quickly acquiesced to these impositions, as the prices are simply incorporated into the project and ultimately paid by the consumer. It is not uncommon for development projects to carry soft costs of more than 25 percent of the project's overall budget. Soft costs now incorporate a wider range of expenses and also are a significant profit and overhead component of a development. Foreign purchasers pay little attention to these realities. More time is devoted both by local realtors and Asian investors into the feng shui of a particular property. (For example, home addresses with the numeral "8" are particularly desirous, as this numeral signifies to the Chinese wealth, prosperity, happiness and health. Canada Post is regularly inundated with requests for address changes to incorporate the numeral 8.)

For some perspective on how much the Canadian consumer pays in taxes and fees, the Canada Mortgage and Housing Corporation (the Canadian equivalent of Fannie Mae and Freddie Mac), analyzed these costs nationally and concluded that Canadian buyers of a new $567,000 home paid approximately $108,000 in taxes, fees, levies, and other imbedded charges imposed by the federal, provincial and municipal governments.[42] To put this in some further perspective, $567,000 would not provide the consumer with very much purchasing power in Metro Vancouver. But the $108,000 in taxes and fees embedded in new Canadian homes equates to fully 59 percent of the median U.S. detached home price of $184,000 as of June 2011.[43]

HOUSING AFFORDABILITY: THE KEY VARIABLE

In order to better understand local, national and international housing markets, Demographia International began its International Housing Affordability Survey, which currently analyzes 325 markets in seven countries and quantifies the relationship between median household incomes and median home prices.[44] Based upon its analysis, Demographia International states that if median home values exceed three times median incomes, then the cost of housing is unaffordable.

Figure 11

Demographia Housing Affordability Rating Categories

Median Income Multiple required for Median Home Value

RATING	MEDIAN MULTIPLE
Severely Unaffordable	5.1 & Over
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 or less

Source: Demographia International 2011

Of the six countries and one region (China/Hong Kong) analyzed, the only country close to having a national affordability index close to affordable was the United States. (This result follows the 2008 collapse of the American housing bubble.)

Figure 12

Housing Affordability National Medians by Major Markets

(Over one million population)

NATION	NATIONAL MEDIA
China	11.4
Australia	7.1
New Zealand	6.4
United Kingdom	5.1
Ireland	4.8
Canada	4.6
United States	3.3

Source: Demographia International 2011

With a national median index of 4.6, Canada's housing market is considered seriously unaffordable, according to this survey's methodology. With a 9.5 median multiple, Vancouver is the third most expensive housing market in the world. The following is the median multiple for some of the 82 cities profiled with a metro population more than one million.

Figure 13

Housing Affordability: Major Metropolitan Markets

(Rank out of 82: Metropolitan Market Median Multiple)

RANK	METROPOLITAN MARKET	MEDIAN MULTIPLE
1	Atlanta, GA, USA	2.3
10	Dallas, TX, USA	2.7
33	Chicago, IL, USA	3.6
36	Washington, DC, USA	3.8
43	Calgary, AB, Canada	4.0
47	Portland, OR, USA	4.4
50	Dublin, Ireland	4.8
55	Boston, MA, USA	5.0
55	Seattle, WA, USA	5.0
59	Toronto, ON, Canada	5.1
66	Los Angeles, CA, USA	5.9
68	New York, NY, USA	5.9
76	London, UK	7.2
76	San Francisco/Oakland, CA	7.2
80	Vancouver, BC, Canada	9.5
81	Sydney, Australia	9.6
82	Hong Kong, China	11.4

Source: Demographia International 2011

For the Metro Vancouver calculations, Demographia used a median house price of $602,000 and median income of $63,100. If only Vancouver city and not its metropolitan area were used, the price-to-income ratio would be 11.7 to 1.

While Metro Vancouverites pay a high premium for their residential real estate, this does not necessarily translate into either premium quality or value. The age, size and quality of materials and finishes varies significantly from project to project (both detached and condominium). Housing sizes are decreasing, and condominiums with more than 1,000 square feet of living space are now considered to be larger units. Curb appeal of residences varies greatly. (The infamous "Crack Shack or Mansion" Web site, which was created by local residents out of frustration about the high cost of housing in Vancouver, literally asks the viewer to pick between a Vancouver "crack shack or mansion." The Web site can be viewed at *http://www.crackshackormansion.com*).

Now, perhaps too late in the game, housing affordability is the new mantra of governments, developers and realtors. But what denotes housing affordability in such an extreme market like Metro Vancouver? Two current affordability initiatives highlight not only creative planning, but costly and limited-use alternatives. The City of Vancouver has recently launched two programs that highlight the extraordinary cost of any form of housing in the region. These include laneway housing and "basements in the sky."

The laneway housing initiative calls for structures to be built literally in the back alley of existing detached homes. The structures are meant to provide shelter for immediate family members and cannot be part of a separate property title. However, the estimated cost of constructing a 750-square-foot laneway house is $160,000 to $220,000—far more than the cost of an average detached home in the U.S.[45]

Similarly, the "basement in the sky" bylaws are meant to be sustainable alternative rental units to assist condominium owners with their mortgages. To qualify, a condominium owner needs a unit "large enough" to be subdivided to provide 205–280 square feet of space that must have its own separate entrance, and its own bathroom and kitchen.[46] Where once realtors had to disclose illegal secondary suites, now they are being actively promoted by cities themselves, stating that such housing initiatives are common in other parts of the world, including Hong Kong.

The prime example of convoluted planning and overall incompetence was the conception and development of Vancouver's 2010 Olympic Village. What was proclaimed as of one of the world's greatest mixed-use and green initiative developments—a new urban model where owners of multi-million dollar units would live beside heavily subsidized social housing occupants—has proved to be a massive failure. The multi-building project, which housed the Olympic athletes for two weeks in advance of being placed on the market, was initially offered at per-square-foot sale prices in excess of Manhattan's. It has turned out to be the most costly misadventure in city history, and is currently in receivership. The city, which is now the creditor of the property, will lose hundreds of millions of tax dollars.

A final point on affordability concerns the rental market. Another consequence of the speculative nature of foreign investment in the local market has been the severe decline of both new commercial developments and rental apartments. With condominiums becoming increasingly dominant in the local real estate markets, many existing commercial and apartment buildings were converted to condominiums, with virtually no new projects replacing them. The newest crisis facing Metro Vancouver is now the lack of affordable apartments. Currently it is estimated that upwards of 65,000 apartment units are needed annually because of the lack of affordability of the housing stock. Fewer than 600 units are built per annum.[47]

LESSONS TO BE LEARNED TO DATE

Metro Vancouver is a city that either remains on the rise or is heading for a fall. To what extent either of these outcomes could occur is still unknown. Vancouver's current real estate market continues to defy expectations and global realities. Foreign investment continues unabated and shows no sign of slowing—yet. Is this because foreign funds, especially from China, are invested in British Columbia in order to create a permanent connection with this city? Or are investors still hedging their bets on China's own housing markets and its political and economic stability? If China's growth were based upon Western consumerism and debt, as well as its own cheap labour and artificially devalued currency, how can its model be sustained in light of the world's current economic decline?

While the circumstances that have led to the current Vancouver real estate experiment cannot be easily transferred to another jurisdiction, there are still some points to be noted:

1. **Housing affordability remains the key variable**.

When a city or region loses its housing affordability, its economy is hamstrung and the workforce and entrepreneurial base lost. Existing businesses will relocate to less expensive locales, or simply limit their own expansion and growth plans. The impact on a society with a denied or restricted home ownership dream is currently unknown.

2. **The principal, interest, tax (PIT) calculation is the key housing fundamental.**

For generations, the traditional housing market was built upon a simple PIT calculation. Previously, to buy a house one needed roughly one-third of the purchase price available for down payment, and the combined PIT could not or should not exceed about one-third of the family's gross income. The housing bubble was exacerbated when higher-risk loans reduced down payments and people began using their homes as a source for cash withdrawals. As a result, debt too often exceeds home equity. Local residents, not foreign investors, bear this responsibility.

3. **Debt is debt.**

Both sovereign nations and their citizens have assumed greater debt than perhaps is possible to repay. In Metro Vancouver, it is increasingly the escalating home prices that owners look to, to keep them solvent. But how much equity is really available in these assets and how liquid are they if the market turns? This in turn has led to an overdependence on foreign purchasers to buy out local owners.

4. **You cannot build a sustainable economy on a speculative real estate market.**

As shown in this article, all levels of government are indebted to the hyperactive real estate market in British Columbia and in particular Metro Vancouver. Without the taxes and fees generated by real estate, local and provincial budgets are literally sunk. Strong and vibrant economies with global influence do not rely on their local real estate markets and ever-expanding gambling cultures to fund their operations. This was highlighted when the Business Council of British Columbia commented on the latest Metro Vancouver Regional Growth Plan, which tries to project thirty years into the future:

> *The current version of the Regional growth strategy seems to be more of a 'preservationist' plan than a true growth plan. If the past two decades have taught us anything, it is that steady population growth, high levels of immigration, and a changing global economy are sure to have a major impact on Metro Vancouver in the coming decades, and in ways that cannot be fully anticipated in 2010 . . . The regional growth strategy has five primary goals, but only one even references the economy, stating simply that the regional growth plan's second goal is to support a 'sustainable economy.'* [48]

British Columbia has not had measureable productivity gains within its economic models in more than a generation and has lost much of its resource-based industries, something further addressed in the Business Council's critique:

> *The Greater Vancouver region does not score particularly well on a number of key indicators of economic success. Relative to size of population and GDP, regional exports are lower than elsewhere in the country and clusters of traded industries tend to be weak. Labour productivity and employment incomes are lower than in most other large Canadian cities. The region also stands out for its very poor record in maintaining, let alone growing head office employment.*[49]

5. **Planners do not necessarily plan well.**

While all cities and regions require skilled and competent urbanists and city planners, Metro Vancouver might not be the model other jurisdictions want to follow—despite its current reputation as a leading-edge region. For forty years the governing mantra of Metro Vancouver has been the twin pillars of "livability and sustainability." While short on specifics, facts and figures, the general wording of successive planning documents was to provide both livability and sustainability in tandem. There now has been a subtle move towards promoting sustainability and green initiatives and downplaying livability (affordability).[50]

6. **Politicians will be politicians.**

Politicians, especially career ones, tend to act out of expediency and with an immediate and short-term perspective. This is not beneficial in real estate—which is a long-term proposition. There is perhaps too close a relationship between politicians, the real estate and development industries and the civic bureaucracy and planners—and this does not necessarily lead to good decision making. What is the point of having detailed official community plans and zoning bylaws if these can be traded on or amended as easily as they have been in recent years? Another outcome is mega-projects or legacy projects that politicians always want to be part of—yet may not be suited to comprehend or manage. Vancouver's Olympic Village is the best example of this.

7. **Sustainability and green initiatives will be used to defend policy decisions and rising costs.**

While sustainability and green initiatives are here to stay, they should not be imposed unless the technologies and benefits are proven. Higher densities, fewer transportation options and higher taxes to combat perceived or actual threats to the environment are not necessarily practical and should not be used to justify higher real estate prices and taxes. Individual green initiatives should always be encouraged and promoted.

8. **Real estate risk should be borne by the developer and purchaser – not transferred to the taxpayer.**

Traditionally real estate development required control and/or leverage over four variables: land, capital, tenants/purchasers and knowledge. Those who develop and market real estate should be doing so with their own capital and not benefit from public assets or influence. Risk assessment and management—the possibility of success or failure based upon one's efforts and resources—is a great deterrent for bad projects, as ultimately the market will decide.

9. **While some foreign investment in real estate can be positive, excessive amounts will negatively alter the traditional housing market.**

The rapid escalation of foreign capital into Metro Vancouver's residential housing market is unprecedented. High-end prices increase all housing prices and this has certainly been the case in Metro Vancouver. As goes the housing market, so goes the commercial real estate markets and the economy as a whole. Furthermore, without some objective cost/benefit analysis of such concentration of foreign money in one's region, and the overall impact on various government budgets and services, it cannot be stated with any degree of accuracy what the actual cost and benefits are of this investment. While the short-term gains may appear advantageous, the ultimate returns may not justify the transformation.

Unless recent immigrants fully integrate with this region's communities and economies, and Canada's extremely large emigrant population reintegrates with Canadian society and fully pays taxes here, this whole process is flawed.

10. **It is not rude to ask who is investing in your real estate markets and where their money comes from. It is called due diligence.**

There is growing unease within Metro Vancouver about the rapid rise of the Asian real estate influence over the region. Who are the purchasers and where does this money come from and how was it earned? What is their commitment to the region and Canada? Will they integrate or be satellite investors and residents?

It is now becoming clearer that locals are being priced out of their own real estate markets—and that home ownership for their children is a fading dream. If proper due diligence is not part of the equation at this point, then perhaps tax and legal deterrents that address speculation should be considered and implemented.

Those of us who are fortunate enough to call Metro Vancouver our home, and work within its real estate industry, consider ourselves very fortunate indeed. This is why many watch with growing trepidation what is currently occurring in our real estate markets and consider what might be the long-term and lasting impact of our Asian investment experiment. Accordingly, if other jurisdictions are contemplating similar means to salvage or grow their real estate markets, they should carefully consider the timeless words of the preamble to the REALTOR® Code of Ethics and Standards of Business Practice:

> *Under all is the land. Upon its wise utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization.*[51]

ENDNOTES

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   These comments were made by the President of Rennie Marketing Systems in an attempt to explain to an incredulous global real estate market how and why residents of Metro Vancouver often pay extreme amounts for, on square foot and quality levels, very little. This firm has also been the marketers for several years of the controversial and likely greatest white elephant in British Columbia's real estate history, the 2010 Olympic Village project.

   Rennie Marketing Systems and Realty is headed by realtor Bob Rennie, proclaimed by the Vancouver media as the region's "Condo King." He is the single most influential and controversial marketer of condominium projects in the region. He is also the frequent keynote speaker at the region's annual gathering of the Urban Development Institute, where his presentation and predictions are as interesting as they are bizarre and disjointed. Readers who visit the firm's website (*http://www.rennie.com*), can view Rennie's 2011 UDI speech, entitled "Vancouver, The Best Place to Live or the Least Affordable – You Decide." Prior to speaking, largely on the Asian influence on our housing markets, Rennie enters to the 1970s disco song "Kung Fu Fighting" followed by a brief remark about his sex life. In his presentation, Rennie will try to mitigate the Chinese impact on Metro Vancouver's real estate markets by stating if the top 20 percent of the market are excluded (almost exclusively Chinese), then the region's housing market affordability is not as drastic as reported.(It is).
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50. For interesting and targeted critiques of the urban planning profession, and how politics will always trump plans, see Randal O'Toole, whose books, *The Vanishing Automobile and Other Urban Myths* (2001), *The Best Laid Plans: The Case Against Government Planning* (2007), and *Gridlocked: Why We're Stuck in Traffic and What to Do About It* (2010) offer the well-documented opinions of a self-proclaimed "anti planner."For a very specific and damming critique of the Greater Vancouver Regional District (since renamed Metro Vancouver) land use planning strategies and its outcomes, see O'Toole's "Unlivable Strategies: The Greater Vancouver Regional District and the Livable Region Strategic Plan." This paper was commissioned by the Canadian conservative think tank, the Fraser Institute (based in Vancouver). Even though O'Toole was very critical in his review, neither Metro Vancouver nor its politicians felt the need or pressure to offer a systematic rebuttal. In the four years since its 2007 release, O'Toole's projections on livability in the region have proved to be prescient.

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