

Investment Executive – February 24, 2023

The unwelcome fallout from the foreign buyer ban

Feds' effort to improve housing affordability is hurting broader property market

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The federal government's effort to ban foreign buyers from the Canadian housing market is having some unintended negative consequences for the real estate industry and investors, says a new report from economists at CIBC World Markets Inc.

The ban on foreigners buying Canadian residential real estate is intended to help alleviate the affordability crisis in the housing market, the report says, but adds the details of the policy mean it's having major repercussions beyond that basic goal.

For instance, the legislation's definition of residential property doesn't just cover houses and condos. It captures any land (developed or vacant) that's zoned for residential or mixed-use construction, within a metro area, it noted.

"It goes without saying that that definition includes many commercial real estate assets if they happened to be on land with zoning that permits a residential or mixed-use property. In fact, the entire area of downtown Toronto falls under that category," the report said, adding that it covers farmland that falls within a metropolitan area too.

At the same time, the definition of a foreign buyer includes real estate investment trusts (REITs), private equity funds, or other investment vehicles with more than 3% foreign ownership. The legislation also covers the acquisition of mortgages and leases tied to residential property, not just properties themselves.

As a result, the scope of the legislation is having negative effects well beyond the housing market, the report said.

"The damage is real. Many commercial real estate deals have been cancelled or are on hold despite the fact that they have nothing to do with residential housing," it said.

Indeed, the policy may be working against its original intent, the report suggested.

"Developers that are partly foreign owned or rely on foreign equity cannot proceed with purpose built developments that, in our view, are the most effective tool to tackle Canada's housing affordability crisis," it said.

And the fallout may also spread to other sectors, it warned.

"Consider a private equity fund with a minority foreign investor trying to acquire shares in a manufacturing or pipeline business that sits on land zoned as residential or mixed use — only one example out of many," it said.

Given these issues, the report calls on policymakers to revisit the legislation, and revise it to eliminate the barriers to developing new housing supply and investment.