CHINA INSTITUTE
UNIVERSITY OF ALBERTA
Occasional Paper Series Vol. 2, Issue No. 3 / August 2015

FOREIGN INVESTMENT IN REAL ESTATE IN CANADA

KEY ISSUES

KERRY SUN

CHINA INSTITUTE | UNIVERSITY OF ALBERTA

CHINA INSTITUTE
UNIVERSITY OF ALBERTA
Occasional Paper Series Vol. 2, Issue No. 3 / August 2015

FOREIGN INVESTMENT IN REAL ESTATE IN CANADA

KEY ISSUES

KERRY SUN
China Institute, University of Alberta

FOREWORD

The mandate of the China Institute of the University of Alberta is to conduct research on issues of public policy that are relevant to the broad relationship between Canada and China. The target audience for our Occasional Paper series are policy makers, Canadians interested in Canada-China relations, scholars and the media.

One of the focuses of our work has been the study of Chinese investment flows in Canada. The China Institute has created and maintains the most comprehensive data bank of Chinese Foreign Direct Investment (FDI) into Canada, the China-Canada Investment Tracker (www.ualberta.ca/chinainvestment).

While we track large commercial real estate investments into Canada, we do not track investments in individual houses or condominiums as public data is not available. However, we have noted that questions related to foreign investment in Canadian urban real estate have become a subject of public debate, even in the absence of good data. The perspective of the China Institute on this debate, and other issues that arise from Canada-China relations, is that there is a need for sober reflection, and the provision of facts, with the hope that better public policy outcomes may flow from a better informed public discussion.

As China rises in international profile in the 21st century, and as its global influence grows in commensurate with its status as an emerging superpower, it is to be expected that many aspects of Canadian life will be affected, as they have been by our powerful American neighbour. Change is often daunting, and the arrival of a modernizing and influential China will continue to pose important policy issues for Canada throughout this century.

Kerry Sun has, despite the lack of adequate data, undertaken a careful analysis of the current Canadian urban real estate market with regard to foreign, particularly Chinese, investment. He has also examined how a range of other international jurisdictions deal with foreign investment in relation to their urban real estate markets. But this will certainly not be the last work on the subject. China's economy continues to expand, and part of this expansion is a growing FDI flow, not just from Chinese state enterprises, but also from private Chinese companies and from individual Chinese citizens.

Particular care, in our view, also needs to be taken to distinguish between investments by Canadians of Chinese heritage, and foreign investors, some of whom are Chinese. Our goal is to introduce light, rather than heat, into public discourse about the role of foreign investment in real estate in Canada.

Gordon Houlden
Director
China Institute
University of Alberta

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Over the past several years, foreign investment in real estate has become the focus of growing political controversy in Canada. As global investment in real estate is increasingly characterised by capital flows from East to West, investments from China have attracted significant interest, due partly to perceptions that Chinese investors are involved in a substantial proportion of transactions in hot real estate markets, such as in Vancouver. Indeed, since 2008, Chinese outward real estate investment has increased more than 200-fold, to approximately US$33.7 billion by mid-2014.

In Vancouver, rising housing prices, uncertainties about the extent of foreign ownership of residential property, and concerns about the legality of foreign capital have prompted calls for greater regulation of foreign acquisitions of real estate, especially residential property. Since 2008, median house prices in the city have risen from approximately 8 times the median household income to 10.6 times in 2014. Coupled with media and anecdotal reports of large purchases of residential properties by foreigners, these conditions have led many local residents to perceive foreign investment as a major cause of high housing prices.

Due to the difficulties of assessing various public and media claims, the paucity of official, empirical data has contributed to the contentious nature of the controversy. Existing studies appear to show relatively low levels of foreign investment, concentrated in downtown Vancouver and in luxury properties, but their accuracy and reliability are hindered by methodological shortcomings related to the absence of detailed data. If a formal data collection mechanism is pursued, it is necessary to consider the complications involved in defining, collecting, and analysing data on foreign investment. This term has been variously used to denote foreign investors, capital, and occupancy throughout the controversy, and perceptions of foreign investment will differ depending on the context. The potential existence of a gap between perceptions and the reality of real estate investment poses a challenge for efforts to address public concerns.

Public debates on housing affordability exemplify this need for more detailed information on foreign real estate investment. In principle, a given investment in the real estate market has the same economic effect whether it is of domestic or foreign origin. Rather than the foreign nature of such investments *per se*, the relevant difference for housing affordability may be the level of demand and the behaviour of foreign investors, compared to domestic investors. Foreign investors may be more likely to engage in speculation, which by reducing the number of properties available to occupy, could contribute to deteriorating affordability. Conversely, however, foreign demand may help increase the housing stock by encouraging property development. Nevertheless, it is difficult to determine the actual impact of foreign investment in Canadian real estate markets with the data currently available.

Other considerations include concerns about the legality and origins of foreign capital involved in real estate investments, as well as the social and cultural dimensions of the controversy. Observers have questioned how Chinese investors are able to purchase residential properties overseas, given that the capital and foreign exchange controls are imposed in China. The possibility that illegally transferred or acquired funds from overseas may be involved in investments in Canadian real estate

markets raise broader questions about addressing international financial crime, currently a sensitive area of Canada-China relations. Although the overall low prevalence of foreign money laundering makes it unlikely to be a major factor behind appreciating housing prices, public and media concerns about the unknown origins of these funds persist.

Furthermore, the personal resonances associated with housing issues introduce social and cultural implications to the foreign investment controversy, attracting some allegations of prejudicial motivations. Housing issues are highly personal matters and as such, they can be susceptible to narratives that are conducive to controversy. It is argued that the provision of better data by an impartial, official entity can serve to de-escalate these tensions, by facilitating an informed, objective discussion on the issues.

Given the complex challenges that the real estate controversy presents, there is an essential need for the provision of detailed data on foreign acquisitions of real estate, especially of residential property. Recognizing that this investment can have both beneficial and detrimental consequences, any prospective policy response would benefit from improved data and analyses on this subject. The regulatory situations in selected countries are outlined to help inform the ongoing public debate in Canada. Relevant developments from Australia, mainland China, Hong Kong, Taiwan, New Zealand, Singapore, the United Kingdom, and the United States are presented to offer an international perspective on managing foreign real estate investment.

The rationales and implementation of the various regulatory approaches abroad provide potential models for consideration, although some recent policy proposals in Canada may be premature, given that the extent and nature of the impacts of foreign investment is not yet clear. It should be acknowledged that, at present, the various studies and analyses of foreign real estate investment available do not appear to satisfy the public's desire for accurate and reliable information. Efforts to address the influence of foreign investment, actual and perceived, on Canadian real estate markets will require careful consideration of the interrelated issues and challenges.

INTRODUCTION

In the past several years, the acquisition and ownership of real estate by foreign individuals and businesses has received growing public, political, and media attention in Canada, especially in Vancouver. Driven by concerns about housing affordability, the origins of foreign capital, and various other economic and social considerations, there has been much discussion on the impacts of foreign investment in real estate. Since the end of the 2007-2008 financial crisis, global investment in real estate has increasingly been defined by capital flows from East to West.[1] Investments originating from China are a particularly prominent subject of interest, due partly to perceptions that Chinese investors are involved in a substantial portion of transactions in Canadian real estate markets. Between 2008 and mid-2014, Chinese global outward investment in real estate is estimated to have increased more than 200-fold, reaching a total of US$33.7 billion.[2]

In Canada, as in many other countries, foreign ownership of real estate is a contentious topic. Some oppose restrictions on foreign ownership on the basis that they could lead to disadvantageous outcomes for current homeowners and local investors.[3] Others contend that regulations may be necessary to support housing affordability in the face of rising prices and a hot real estate market, such as that in Vancouver.[4] These debates have been persistent and intense, underscoring the depth of public concerns.

This paper examines the several distinct but interrelated challenges presented by the recent controversy over foreign investment in real estate. First, existing sources of data provide an incomplete account of foreign acquisitions of residential properties, contributing to the contentious treatment of this subject in public and media discussions. The complications associated with collecting this data and the shortcomings of existing analyses of foreign investment in Vancouver real estate are discussed. Second, any policy response to address the potential impact of foreign investment on housing affordability necessitates a detailed analysis of the behaviour and prevalence of foreign investors, which is impeded by the lack of data. Third, concerns about the possible presence of funds illegally transferred from or acquired overseas in Canadian real estate markets raise questions relating to international financial crime, a sensitive area of Canada-China relations. Fourth, the personal resonance of housing issues may evoke sensitivities that could be conducive to social and cultural conflict, complicating efforts to address the foreign investment controversy.

At present, perceptions have become as influential as the reality of real estate investment, and numerous uncertainties pervade public discussions on this controversy. This paper argues that the provision of more detailed data would benefit both policy-makers and the public. Better information and analyses would help to

---

[1] PwC and the Urban Land Institute, *Emerging Trends in Real Estate: The global outlook for 2015* (London: PwC and the Urban Land Institute, 2015), 2.

[2] Cushman & Wakefield, *China's Outbound Boom: The Rise of Chinese Investment in Global Real Estate* (London: Cushman & Wakefield, 2014), 3.

[3] "B.C. Premier Christy Clark opposed to taxing foreign homeowners," *CBC News*, May 13, 2015, http://www.cbc.ca/news/canada/british-columbia/b-c-premier-christy-clark-opposed-to-taxing-foreign-homeowners-1.3072443.

[4] Kerry Gold, "Some wonder if it's time Vancouver acts to slow foreign buyers," *The Globe and Mail*, May 8, 2015, http://www.theglobeandmail.com/life/home-and-garden/real-estate/some-wonder-if-its-time-vancouver-acts-to-slow-foreign-buyers/article24341903/.

alleviate these uncertainties, reducing the potential gap between perceptions and reality. However, as the following discussion shows, the formulation of any data collection strategy or policy response requires attending to the complex challenges of foreign investment. Moreover, to date, there has been little sustained consideration of the approaches to foreign acquisitions of real estate adopted elsewhere in the world. Understanding the rationale and implementation of these policies can serve to inform any future action on this issue in Canada. To contribute a global perspective to the discussion, an overview of relevant policy developments in selected countries is provided.

This paper primarily considers issues relating to residential real estate, with an emphasis on investment originating from China. This focus is intended to reflect the nature of recent public concerns, as well as the academic mandate of the China Institute. As such, it is not an exhaustive treatment of the subject of foreign investment in real estate.

BACKGROUND

With the globalization of the real estate market, cross-border investment flows in this sector have grown rapidly in recent years.[5] In 2014, as the share of domestic and regional transactions in global real estate investments decreased, the proportion of international investments increased to more than 12%, the highest level since 2008.[6] The process of global integration over the past few decades has made international factors, such as immigration, more prominent determinants of price movements in Canada's major housing markets than regional and national factors, particularly in Toronto and Vancouver.[7]

Canada offers an attractive environment to real estate investors for its political and economic stability.[8] Historically, Canadian real estate markets have provided high returns to investors,[9] and in recent times observers have also suggested that the depreciating Canadian dollar is favourable for further investment and asset purchases from abroad.[10] Although Toronto and Montreal have drawn significant interest from investors,[11] Vancouver has become the epicentre of the controversy concerning foreign investment in real estate.

CONTROVERSY OVER FOREIGN REAL ESTATE INVESTMENT IN VANCOUVER

As residential property prices continue to rise in Vancouver, housing affordability has become a major focus of attention. According to an international survey conducted by Demographia, Vancouver has had a "longstanding record among the worst markets for housing affordability," with its median house prices at least 8 times higher than median annual household incomes since 2008. In 2014, this figure increased to 10.6, placing the city as the second least affordable metropolitan market out of those analysed.[12] By 2030, the average single home price is estimated to reach $2.2 million.[13] Along with Toronto, the Vancouver real estate market is exceptional in Canada, given its deteriorating affordability for local residents and high incidence of buying and selling.[14]

Widespread concerns have emerged that a substantial portion of the appreciation in home prices can be attributed to foreign investment. The decoupling of housing costs from the local economy, especially with its perceived speculative aspects, have led some to claim that foreign investment is responsible for driving up prices.[15]

---

[5] See Ashok Bardhan and Cynthia A. Kroll, "Globalization and Real Estate: Issues, Implications, Opportunities," *Fisher Center Research Reports*, Spring 2007, 3.
[6] Cushman & Wakefield, *International Investment Atlas 2015* (London: Cushman & Wakefield, 2015), 4.
[7] David Ley and Judith Tutchener, "Immigration, Globalisation and House Prices in Canada's Gateway Cities," *Housing Studies* 16, no. 2 (2001): 206-217.
[8] Katia Dmitrieva and Jeremy van Loon, "Canada as 'New Switzerland' Driving Toronto Condo Market," *Bloomberg News*, May 21, 2015, http://www.bloomberg.com/news/articles/2015-05-21/canada-as-new-switzerland-driving-toronto-condo-development.
[9] Tara Perkins, "Four Canadian cities to present opportunities for foreign property buyers," *The Globe and Mail*, April 10, 2014, http://www.theglobeandmail.com/report-on-business/industry-news/property-report/four-canadian-cities-to-present-opportunities-for-foreign-property-buyers/article17906511/.
[10] Alan Arcand et al., *Metropolitan Outlook 1: Economic Insights Into 13 Canadian Metropolitan Economies* (Ottawa: Conference Board of Canada, 2015), 72.
[11] CBC News, "Foreign investors prominent in Canada's luxury real estate market," *CBC News*, April 18, 2013, http://www.cbc.ca/news/business/foreign-investors-prominent-in-canada-s-luxury-real-estate-market-1.1340811.

[12] Demographia, *11th Annual Demographia International Housing Affordability Survey: 2015* (Belleville, IL: Demographia, 2015), 2, 16.
[13] Vancouver City Savings Credit Union, *Help wanted: salaries, affordability and the exodus of labour from Metro Vancouver* (Vancouver: Vancouver City Savings Credit Union, 2015), 3, 6.
[14] Craig Wright and Robert Hogue, *Housing Trends and Affordability: June 2015* (n.p.: RBC Economics, 2015), 1.
[15] PwC, *Emerging Trends in Real Estate: Canada and United States 2015*, 20. See also Demographia, 1.

Record-high housing prices in recent months, along with various anecdotal and media reports of significant property sales involving foreign buyers, have also fostered this perception.[16] In a June 2015 poll of Metro Vancouver residents, 64% of respondents indicated that they believe that foreign investors were "a main cause of high housing prices."[17] A narrative has emerged linking these economic difficulties to foreign acquisitions of residential real estate. The impacts of foreign investment have consequently become a major policy issue in relation to housing affordability.

Supplementing these discussions on the economic impact of real estate investment are unease about its effects on neighbourhood communities and apprehensions about potentially illegitimate foreign capital. In recent years, Vancouver residents have drawn attention to the practice of purchasing and demolishing older houses to construct new properties, which some believe to be detrimental to the aesthetics and historical character of neighbourhoods.[18] Investment is also thought to contribute to an excess of vacant properties in certain neighbourhoods, which hinders local economic development and the availability of affordable housing.[19]

Given the personal salience of housing issues and the sensitive nature of foreign investment in general, aspects of the real estate debate have precipitated some cultural tensions. Questions of home ownership and housing affordability are, naturally, highly personal matters and can be susceptible to "highly affective narratives" that engender controversy.[20] Similar to the experience of other countries, foreign investment has been a polarizing topic in Canada. Compared to investment in resources or manufacturing, for example, residential investment involves an element of proximity that is more conducive to cultural conflict.[21] A May 2015 survey of British Columbians showed that a higher proportion of respondents of East Asian heritage perceived racism in the debate on foreign real estate ownership, compared to the provincial average.[22] Regardless of whether prejudicial treatment is, in fact, present in public discourse, this cultural dimension undoubtedly comprises part of the controversy.

High-value purchases of real estate by individual Chinese investors have drawn scrutiny about the origins of their capital, as well. Due to the existing limits on the amount of money that can be converted into foreign currency each year by Chinese nationals, some observers have questioned the legality of the capital transfers ostensibly needed to make such purchases.[23] Although difficult to verify, these claims introduce serious questions about financial probity and legality to the public perceptions and discussions of foreign real estate investment.

---

[16] Julie Gordon, "Vancouver prime property market sizzles, fuelled by China cash," *Reuters*, September 11, 2014, http://uk.reuters.com/article/2014/09/11/uk-canada-china-housing-idUKKBN0H60A620140911; Justin McElroy, "Vancouver property exclusively marketed to international buyers; sells for $5 million over asking price," *Global News*, April 22, 2015, http://globalnews.ca/news/1955669/vancouver-property-exclusively-marketed-to-international-buyers-sells-for-5-million-over-asking-price/.

[17] Angus Reid Institute, "Lotusland Blues: One-in-five Metro Vancouverites experience extreme housing & traffic pain; most of them think of leaving," news release, June 18, 2015, http://angusreid.org/wp-content/uploads/2015/06/2015.06.18_Housing_ARI.pdf.

[18] John Mackie, "A fight for a vanishing Vancouver," *Vancouver Sun*, March 23, 2014, http://www.vancouversun.com/fight+vanishing+Vancouver/9647882/story.html.

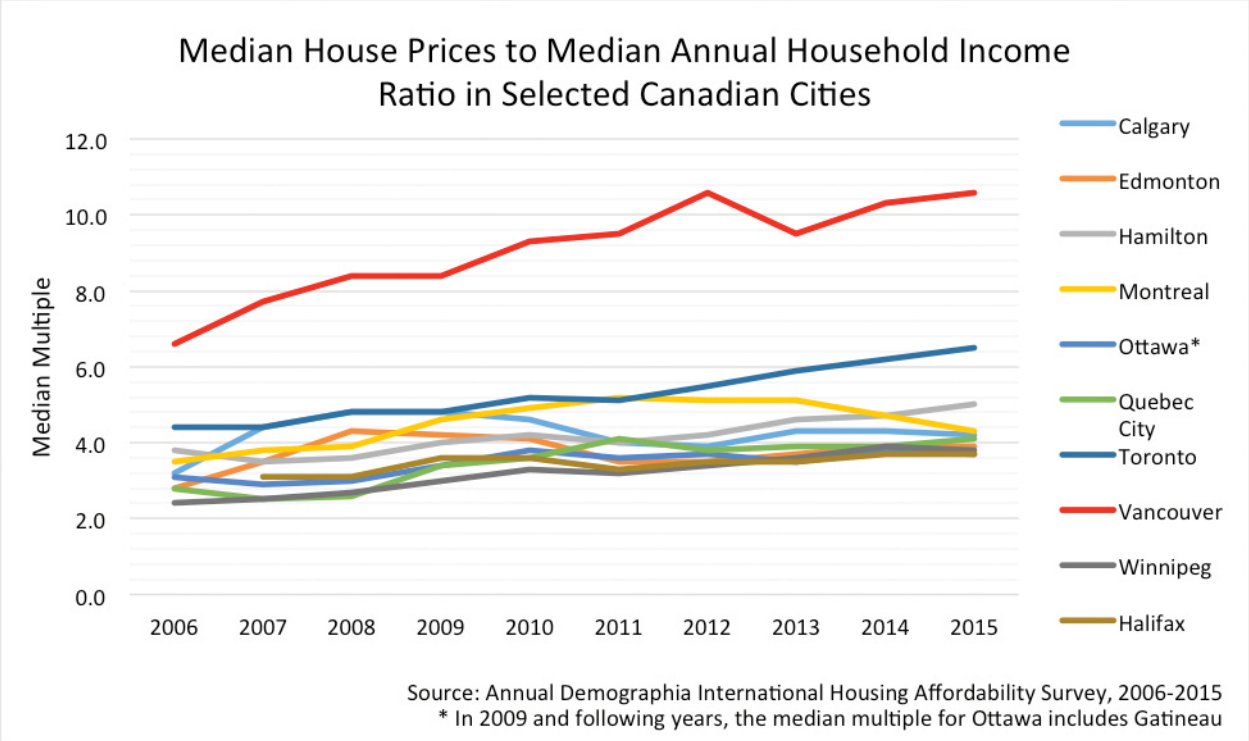
[19] Kerry Gold, "The problem with vacant homes amid Vancouver's real estate boom," *The Globe and Mail*, October 6, 2014, http://www.theglobeandmail.com/life/home-and-garden/real-estate/the-problem-with-vacant-homes-amid-vancouvers-real-estate-boom/article20945702/.

[20] Dallas Rogers, Chyi Lin Lee, and Ding Yan, "The Politics of Foreign Investment in Australian Housing: Chinese Investors, Translocal Sales Agents and Local Resistance," *Housing Studies* 2015, 13.

[21] See David Ley, "Between Europe and Asia: The Case of the Missing Sequoias," *Ecumene* 2, no. 2 (1995): 199-200.

[22] Insights West, "Survey on Real Estate and Housing," June 1, 2015, http://www.insightswest.com/wp-content/uploads/2015/05/RealEstate_Tables.pdf.

[23] Sam Cooper, "All levels of government urged to act on 'hot money' from China by former ambassador David Mulroney," *The Province*, April 14, 2015, http://www.theprovince.com/business/levels+government+urged+money+from+China+former+ambassador+David+Mulroney/10971691/story.html.



These concerns have led to calls for greater regulation of the real estate market, especially of investments in residential property.[24] Under the federal *Citizenship Act*, the provinces are permitted to enact prohibitions or restrictions on acquisitions of real property by non-Canadians.[25] Presently, with the exception of public land, agricultural land, and land in Prince Edward Island, there are no legal restrictions on the acquisition of real estate in Canada by non-Canadians. In May 2015, an online petition to restrict foreign investment in Vancouver's real estate market was launched, while citizens protested the increasing cost of housing.[26] Prompted by the intense public interest in this issue, policy responses such as detailed tracking of foreign ownership of homes,[27] the adoption of a "speculation tax" on investors,[28] an increase in property tax on luxury homes,[29] and the creation of a database of vacant homes have been proposed.[30]

[24] Brent Jang, "Scorching Vancouver house prices put pressure on politicians," *The Globe and Mail*, June 7, 2015, http://www.theglobeandmail.com/report-on-business/economy/housing/blistering-bc-housing-prices-put-pressure-on-politicians/article24836765/.
[25] Citizenship Act, R.S.C., ch. C-29, s. 35 (1985).
[26] "Petition urges restrictions on foreign investors buying Vancouver homes," *CTV News*, May 8, 2015, http://www.ctvnews.ca/business/petition-urges-restrictions-on-foreign-investors-buying-vancouver-homes-1.2365131/.
[27] "Vancouver real estate: Track homes bought by foreigners, says MP Kennedy Stewart," *CBC News*, May 19, 2015, http://www.cbc.ca/news/canada/british-columbia/vancouver-real-estate-track-homes-bought-by-foreigners-says-mp-kennedy-stewart-1.3078894.
[28] Frances Bula, "High-profile condo marketer calls for B.C. speculation tax," *The Globe and Mail*, May 22, 2015, http://www.theglobeandmail.com/news/british-columbia/high-prifle-condo-marketer-calls-for-bc-speculation-tax/article24573605/.
[29] "Christy Clark vs. Gregor Robertson on solving high condo costs," *CBC News*, June 5, 2015, http://www.cbc.ca/news/canada/british-columbia/christy-clark-vs-gregor-robertson-on-solving-high-condo-costs-1.3103136.
[30] Jeff Lee, "Vancouver looks to gather data on vacant homes," *Vancouver Sun*, April 28, 2015, http://www.vancouversun.com/business/story.html?id=11009031.

CHINESE INVESTMENT IN REAL ESTATE

Throughout the controversy, public and media discussion of foreign investments in real estate have frequently referred to reports of investments from China. In the wake of the 2007-2008 financial crisis, capital from Asia, and particularly China, has served as a major driver of the global surge in real estate investment. Since 2009, Chinese outbound investment in commercial real estate alone has expanded from an estimated US$600 million to US$16.9 billion in 2014.[31] Chinese global investments in residential property have also increased as part of this overall trend, though these transactions are more difficult to estimate, due to the volume, diversity, and involvement of individual investors. The recent growth of Chinese outbound real estate investment has been attributed to a number of economic factors and policy developments.

As the domestic real estate market has gradually become less attractive to Chinese investors, economic conditions for overseas investment have improved. Amid slowing economic growth in China, concerns about an excess of supply and a decline in property prices have discouraged further domestic investment.[32] Conversely, recovering growth in developed economies is anticipated to support strengthening real estate markets. In conjunction with favourable currency exchange rates and efforts to internationalize the renminbi, these factors have motivated Chinese investors to pursue opportunities abroad.[33]

On the policy side, the Chinese government has taken action over the years to encourage outward investment as part of its "Going Global" agenda. Recent policy developments have expanded the easing of restrictions on firms and individuals that wish to invest abroad. In October 2014, the Chinese Ministry of Commerce adopted revised "Measures for Foreign Investment Management", which permitted domestic firms to invest in non-sensitive countries and sectors without prior government approval; previously, such approval was required for all overseas investments over US$100 million.[34] In May 2015, China announced the Qualified Domestic Individual Investor (QDII2) programme, a pilot set of regulations that would allow individuals with at least one million renminbi in financial assets to invest directly in overseas financial assets and real estate. It is expected that QDII2 will be launched later in 2015, in the cities of Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen, and Wenzhou. Currently, China prohibits its citizens from transferring more than US$50,000 worth of currency out of the country per year, a significant impediment to wealthy individuals wishing to invest abroad.[35] Both of these policy changes will facilitate outbound investments, including those targeting the real estate sector.[36]

[31] Knight Frank, *Chinese Outward Real Estate Investment Globally and into Australia: Australian Market Insight May 2015* (London: Knight Frank, 2015), 5; Knight Frank, *Chinese Outward Real Estate Investment: After the Initial Waves, What's Next?* (London: Knight Frank, 2015), 2.

[32] Jamil Anderlini, "Chinese cities see property prices fall," *Financial Times*, January 18, 2015, http://www.ft.com/intl/cms/s/0/8cf9e2e6-9ef3-11e4-ba25-00144feab7de.html.

[33] Cushman & Wakefield, *China's Outbound Boom*, 5.

[34] Ministry of Commerce, People's Republic of China, "Ministry of Commerce Introduces Newly Revised Measures for Foreign Investment Management," news release, September 12, 2014, http://english.mofcom.gov.cn/article/newsrelease/significantnews/201409/20140900729955.shtml.

[35] Gabriel Wildau, "China to allow individuals buy overseas financial assets," *Financial Times*, May 29, 2015, http://www.ft.com/intl/cms/s/0/5da9f1c4-05b5-11e5-bb7d-00144feabdc0.html?siteedition=intl#axzz3bZCbwVxS

[36] Peggy Sito, "New rules ease China investment in foreign real estate," *South China Morning Post*, October 13, 2014, http://www.scmp.com/property/international/article/1615387/new-rules-ease-china-investment-foreign-real-estate; Wei Gu, "New Program Could Further Boost Chinese Real Estate Investment in U.S.," *China Real Time Report* (blog), *Wall Street Journal*, June 18, 2015, http://blogs.wsj.com/chinarealtime/2015/06/18/new-scheme-could-further-boost-chinese-real-estate-investment-in-u-s/.

Recent expansions of Chinese investment can be attributed not only to state-owned enterprises and sovereign wealth funds, but also increasingly, private firms and individual investors.[37] After new regulations in 2012 permitted domestic insurers to invest a portion of their assets in property abroad,[38] Chinese insurance companies became a significant contributor to the flow of capital into overseas real estate, with several high-profile deals completed in 2014.[39] Additionally, for many individual investors, the uncertainties resulting from the China's slowing economy and political reform agenda provide reasons to diversify their holdings by investing overseas.[40]

What is apparent from the various views and concerns expressed is that the controversy over foreign investment in real estate involves a number of interrelated issues. Resolving the difficulties raised by the controversy thus necessitates an awareness of its multifaceted character.

---

[37] Cushman & Wakefield, China's *Outbound Boom*, 9.
[38] Ibid., 6; "Insurers get more freedom in asset allocation," *China Daily USA*, February 20, 2014, http://usa.chinadaily.com.cn/epaper/2014-02/20/content_17294574.htm.
[39] Ernst & Young, *Outlook for China's outward foreign direct investment 2015* (China: Ernst & Young, 2015), 11.
[40] John Foley, "China's capital flight lands on New York doorsteps," *Reuters Breakingviews*, March 19, 2015, http://blogs.reuters.com/breakingviews/2015/03/19/chinas-capital-flight-lands-on-new-york-doorsteps/.

KEY ISSUES

COLLECTION OF DATA ON FOREIGN INVESTMENT

A highly contested issue in the controversy has been the collection of data on foreign real estate investment in Canada, along with differing assessments of the prevalence and characteristics of such investments. In Canada, no formal mechanism exists to track the level of foreign investment in real estate, leading to much uncertainty on related matters. Without an official measure, it is difficult to develop reliable conclusions about the effects of foreign investment in the real estate market and verify potentially tendentious claims. The paucity of data also hinders the ability to evaluate the merits of various policy proposals that have arisen in public discussions. For instance, the extent to which foreign investment is responsible for housing affordability challenges is likely to be contingent on the magnitude of investment and the behaviour of investors. Therefore, any policy response would benefit from a clear, informed understanding of the present state of foreign real estate investment in Canada.

Moreover, the lack of empirical data is especially troublesome, considering the aforementioned personal significance of housing and the sensitive nature of foreign investment in general. While it is beyond the scope of this paper to investigate in detail various factors behind public perceptions of foreign investment, results from a recent national survey suggest that Canadians remain uneasy about Chinese investment, even as respondents overestimated the country's level of investment in Canada.[41] Although the findings were not specific to the real estate sector, they indicate a potential incongruity in public perceptions, one that may be exacerbated by the absence of empirical data. For these reasons, the quality and availability of data on foreign investment has a central role in resolving the contentious nature of the present public debate.

Several complications are involved in collecting and interpreting data on foreign investment. As experts have observed, foreign investment is conceptually complex, and the difference between foreign capital, ownership, and occupancy should be recognized.[42] In the context of the real estate controversy, "foreign investment" has been used to denote both acquisitions of property by non-Canadians and acquisitions conducted using foreign capital. Meanwhile, the occupancy rates of foreign-owned residential properties has been a subject of interest in discussions of housing affordability, due to the belief that foreign investors might contribute to speculative activity in the housing market or engage in housing speculation at a higher rate than domestic investors. Speculation can reduce the stock of housing available to function as residences, rather than purely as unoccupied investments, which aggravates the affordability problem. Furthermore, it is thought that a "significant proportion" of investment activity involves Canadian residents with foreign capital,[43] and some have cited concerns about the legality of capital transferred from abroad by individuals with Canadian citizenship or permanent residency status.[44] These different facets of foreign investment would not necessarily be revealed through a single data collection channel.

[41] Asia Pacific Foundation of Canada, *2015 National Opinion Poll: Canadian Views on Asian Investment* (Vancouver: Asia Pacific Foundation of Canada, 2015), 13, 21.

[42] Alexandra Posadzki, "Experts call for more data on foreign investment in Canadian real estate," *The Canadian Press*, June 19, 2015, http://www.ctvnews.ca/business/experts-call-for-more-data-on-foreign-investment-in-canadian-real-estate-1.2430108/.

[43] Benjamin Tal and Andrew Grantham, "The Many Faces of the Canadian Housing Market," *CIBC Economic Insights* June 25, 2015, 10.

[44] Ian Young, "Bogus 'analysis' obscures the role of foreign money in Vancouver's runaway housing market," *South China Morning Post*, June 10, 2015, http://www.scmp.com/comment/blogs/article/1819499/exposing-bogus-analysis-ignores-role-foreign-money-vancouvers-housing/.

Further issues can arise from the cultural aspects of the controversy. For example, given the anecdotal nature of some reports of foreign investment, it is conceivable that some acquisitions by Chinese-Canadian investors have been mistaken for those by offshore Chinese nationals. As such, these reports could inadvertently contribute to the confusion of local residents and inflate perceptions of foreign investment activity, a concern that some have expressed in Vancouver.[45] The challenges of defining foreign investment require policy-makers to consider the purposes that the data collection is intended to serve, whether it is to determine the influence of investment on housing supply and affordability, to compare the behaviour of foreign and domestic investors, or to ascertain the origins of investment capital.

Driven by the local prominence of the issue, the past several years have witnessed several studies, with varied methodologies, that have engaged public interest in foreign real estate investment in Vancouver.

Previous Studies of Foreign Investment in Residential Real Estate in Vancouver

Year	Study	Methodology	Findings
2009	BTAWorks, Sample study of ownership and occupancy of condominiums in downtown Vancouver	• Sample of 2,387 condominium units in 13 buildings in downtown Vancouver. • "Empty condos" defined as units that use less than 75 kilowatt-hours per month, according to BC Hydro, between January 2006 and December 2007. • "Non-owner occupied" units estimated based on the 2008 BC Assessment and Home Owner Grant databases	• 5.5% of units sampled were empty condos. • 8.5% of units sampled used less than 100 kw/h per month. • 52-61% of units sampled were non-owner occupied. • 6% of units sampled had assessments sent to outside of Canada.
2010	Urban Futures Institute, Study of Property Assessment Mailings	• Landcor Data Corporation provided BC Assessment data for the Lower Mainland in 2009 and 2010, which was used to examine the addresses to which property assessment notices were mailed. • If the property assessment notice was not mailed to the legal address of the property being assessed, it would be considered an "investment property". A notice mailed outside of the country was interpreted as representing a property purchased by a foreign investor.	• Foreign investors accounted for 0.4% of all sales in the region in 2010 and 0.6% of all sales in 2009. • Foreign investors owned 0.5% of the total stock of residential properties in the Lower Mainland.

[45] Jeff Lee, "Vancouver looks to gather data on vacant homes."

Previous Studies of Foreign Investment in Residential Real Estate in Vancouver

Year	Study	Methodology	Findings
2011	Landcor Data Corporation, British Columbia Q1 2011 Residential Sales Summary	• BC Assessment residential sales transaction data of "luxury" homes (over $3 million) in Westside Vancouver and condominiums (over $2 million) in Richmond between 2008 and 2010 were examined. • New owners' names were counted as likely to be offshore Chinese investors if they matched "quintessential PRC or pure Chinese names", excluding "Western first names".	• There were 69 luxury sales in 2008, 72 in 2009, and 164 in 2010 in Westside Vancouver and Richmond. • In 2008, the proportion of buyers whose names matched the criteria was 46%, increasing to 68% in 2009 and 74% in 2010.
2011	Statistics Canada, 2011 Census	• National census, conducted on May 10, 2011, incorporating questions on the occupancy of dwellings in the Vancouver Census Metropolitan Area (CMA), which represents Greater Vancouver. • "Unoccupied" dwellings refer to units that were vacant on census day, including those available for occupancy, those that belonged to residents who were temporarily away on census day, and those that served as second residences. • "Foreign/temporary resident occupied" dwellings refer to units occupied by individuals whose primary residences were elsewhere in Canada or abroad, including Canadian and foreign students and tourists.	• 5.4% of dwellings in the Vancouver CMA were unoccupied. • 0.8% of dwellings in the Vancouver CMA were occupied by foreign/temporary residents. • 22.8% of dwellings were either unoccupied or occupied by foreign/temporary residents in the Coal Harbour neighbourhood of Vancouver.
2014	Canada Mortgage and Housing Corporation, Fall 2014 Rental Market Report	• Rental Market Survey conducted in October 2014 through telephone interviews and site visits with owners, managers, or superintendents of sampled rental buildings. • Survey respondents were asked to provide information on "the total number of condominium apartment units owned by people whose permanent residence is outside of Canada."	• The highest percentages of foreign investment in condominiums were in Toronto (2.4%), Vancouver (2.3%), and Montreal (1.5%). • In Vancouver's Burrard Peninsula, 5.8% of condominium units are owned by foreigners.
2015	British Columbia Real Estate Association, Informal Poll of Realtors	• Informal monthly poll conducted by the REBGV of 200 realtors • *given that the figures for foreign and domestic investors do not sum to 100%, "investor" is likely to refer to individuals that do not reside in the property they purchase.	• Between 2009 and 2015, home sales to foreign investors have increased from 2.6% to 3.6% per year, averaging 3.2%. • Between 2009 and 2015, domestic investors were involved in 12% of transactions per year, on average.*

Note: all findings are described in terms of the methodology of the specific study

Although insufficient to provide a definitive account of foreign investment and its impacts on housing affordability, the studies offer some insight regarding this investment in certain segments of the Vancouver real estate market. In the absence of official statistics on foreign investment in residential property, some analyses have drawn from other data sources to serve as proxies for variables of interest, such as the number and occupancy rates of foreign-owned homes. Studies of this type have included work by Bing Thom Architects, a local firm, and reports utilizing census data. Other survey-based methods have attempted to estimate the level of foreign investment by collecting data from building managers or industry professionals. Overall, the present findings are not indicative of substantial foreign investment activity in the city as a whole, but provide some support for the view that this activity is more concentrated in downtown Vancouver and in the luxury properties market.

In 2009, Bing Thom Architects released a study of the ownership, occupancy, and rental rates of condominiums in downtown Vancouver.[46] Sampling 2,387 condominium units throughout thirteen buildings, the study applied data from BC Assessment, the British Columbia Home Owner Program, and BC Hydro.[47] Hypothesizing that empty units were likely to consume little electricity, monthly account data from BC Hydro between January 2006 and December 2007 was used to estimate the occupancy rate of the sample. Given a threshold of 75 kilowatt-hours per month for empty units, the study found that an average of 5.5% of sampled units were empty during the period observed. On a higher threshold of 100 kilowatt-hours per month, an average 8.5% of sampled units were found to be empty. To determine the ownership status of the condominiums, the study examined BC Assessment and Home Owner Grant data, concluding that between 52-61% of sampled units were non-owner occupied and between 39-48% were owner occupied. According to 2008 data from BC Assessment, 6% of the sampled units had assessment notices sent to addresses outside of Canada; 2% of units had assessments sent to countries in Asia.

Other analyses of BC Assessment data suggest that the level of foreign investment is higher in downtown Vancouver and in the luxury properties market, relative to the rest of the Lower Mainland. Whereas 6% of sampled units in the downtown region had assessments sent outside of Canada in 2008, this figure was 0.5% for all residential properties in the Lower Mainland in 2009.[48] Based on an examination of the buyers' names in residential sales transactions, the Landcor Data Corporation claimed that in 2008, 46% of luxury sales in Richmond and Westside Vancouver involved buyers from mainland China, increasing to 68% in 2009 and 74% in 2010.[49]

Nonetheless, some deficiencies of the BC Assessment data should be noted. Relying on the addresses listed on assessment notices may result in underestimation of the actual prevalence of foreign investment activity, since foreign investors may use intermediaries listed in Canada to receive those notices. Accordingly, findings from the BC Assessment data are perhaps best interpreted as providing

[46] Andrew Yan, *Ownership, Occupancy, and Rentals: An Indicative Sample Study of Condominiums in Downtown Vancouver* (Vancouver: Bing Thom Architects, 2009).
[47] BC Assessment is the provincial Crown corporation responsible for assessing the market value of real property.

[48] Andrew Ramlo and Ryan Berlin, "Averages & Anecdotes Part II: Deciphering Trends in Real Estate Prices," n.d., *Urban Futures Institute*, http://www.urbanfutures.com/foreign-buyers/. The authors used BC Assessment data from Landcor Data Corporation.
[49] Landcor Data Corporation, *British Columbia Q1 2011: Residential Sales Summary* (New Westminster: Landcor Data Corporation, 2011), 2. The analysis involved comparing the names of buyers of luxury homes (>$3 million) and condominium units (>$2 million) in Richmond and Westside Vancouver to "quintessential PRC or pure Chinese names (excluding 'Western' first names and/or any remotely non-Chinese variant)."

relative, not absolute, indications of foreign investment in segments of the market. Likewise, the reliability of the name-comparison method is questionable. It may capture both domestic and offshore investors of Chinese heritage and does not provide an indication of non-Chinese foreign buyers, which would obscure the actual number of foreign investors. These are clear limitations to the findings derived from proxy variables, some of which have been acknowledged within the studies themselves.

The 2011 Census arguably provides the most comprehensive dataset available on the occupancy status of residences in Vancouver. Census data appears to support the proposition that foreign investment is concentrated in the downtown region. Conducted on May 10, 2011 by Statistics Canada, the census recorded the number of "unoccupied" dwellings and dwellings occupied by "foreign residents and/or by temporarily present persons" within the Vancouver Census Metropolitan Area (CMA), a geographical region that represents Greater Vancouver. Of all dwellings in the Vancouver CMA, 5.4% were unoccupied and 0.8% were occupied by foreign/temporary residents.[50] In contrast, within downtown Vancouver, approximately 15% of dwellings were either unoccupied or foreign/temporary resident occupied; in the Coal Harbour neighbourhood, 22.8% of dwellings were either unoccupied or foreign/temporary resident occupied.[51] Notably, the significant rate of vacancy or foreign/temporary resident occupancy in downtown Vancouver appears to correspond with earlier findings suggestive of higher foreign investment in this region of the city and in the luxury properties market.

However, as commentators have pointed out, the reporting categories adopted by the census provide an imperfect description of foreign occupancy.[52] This obstacle impedes clear conclusions about the extent of foreign real estate ownership and its effect on the availability of housing. Because an "unoccupied" dwelling is simply considered to be one that is vacant on census day, this category can include dwellings available for occupancy and those that serve as secondary residences for Canadian citizens or permanent residents. As well, "temporarily present persons" are grouped with "foreign residents" as a single category in the census data, for they both refer to persons occupying the dwelling who have a main residence elsewhere in or outside of Canada. The census definition of foreign residents may include not only investors, but foreign students, workers, and tourists as well. Temporary residents such as students and individuals with a primary residence outside of the Vancouver CMA may also be represented within the count. Most importantly, the data is inadequate to establish any link between housing vacancy and foreign investment. Thus, the census results should not be interpreted as a direct reflection of foreign investment in residential property or its attendant effects on occupancy.

More recently, survey-based findings on foreign investment in Vancouver real estate have been released, reporting relatively low levels. In October 2014, the Canada Mortgage and Housing Corporation conducted its Rental Market Survey, which collected information in major urban areas from the building owner, manager, or superintendent of sampled rental buildings.[53] It

[50] David Baxter, Andrew Ramlo, and Ryan Berlin, "Much Ado About Nothing: What the data say, and don't say, about foreign & temporary residents and unoccupied dwellings," n.d., *Urban Futures Institute*, http://www.urbanfutures.com/foreign-unoccupied/.

[51] Andrew Yan, "Measuring the Presence of Absence: Clarifications and Corrections in the Reportage of the BTAworks' Foreign Investment in Vancouver Real Estate," *Bing Thom Architects* (blog), March 25, 2013, http://www.btaworks.com/2013/03/25/measuring-the-presence-of-absence-clarifications-and-corrections-in-the-reportage-of-the-btaworks-foreign-investment-in-vancouver-real-estate/. This analysis did not separate the "unoccupied" and "foreign/temporary resident occupied" categories.

[52] Ibid.; Baxter, Ramlo, and Berlin, "Much Ado About Nothing."

[53] Canada Mortgage and Housing Corporation, *Rental Market Report - Canada Highlights - Date Released - Fall 2014* (Ottawa: Canada Mortgage and Housing Corporation, 2014).

found that the three metropolitan areas with the highest percentage of foreign investment in condominiums were the Toronto CMA with 2.4%, Vancouver CMA with 2.3%, and Montreal CMA with 1.5% of sampled units owned by "people whose permanent residence is outside of Canada."[54] Consistent with previous findings, the survey reported that downtown Montreal and Vancouver's Burrard Peninsula had a higher share of foreign-owned properties than the region average, at 6.9% and 5.8% of sampled units, respectively. An informal monthly poll of Vancouver realtors by the Real Estate Board of Greater Vancouver reported that the proportion of foreign buyers in residential transactions increased from 2.6% in 2009 to 3.6% as of March 2015, with an average of 3.2% over the entire period.[55]

As Australian observers have noted, since these types of surveys are based on the assessments of the individual respondents, it is not clear how they distinguish between foreign investors, expatriates, permanent residents, and citizens.[56] Presumably, building managers and realtors have reliable methods to determine the residency status and nationality of real estate investors, but this has not been confirmed. Consequently, these reports may over- or under-represent foreign investment activity, depending on the definitions adopted.

The Vancouver-area studies show that efforts to infer the level of foreign ownership and occupancy of real estate are limited by the existing sources of data. There remains significant uncertainty about foreign investment, and it is widely acknowledged that the current data is insufficient to render a complete account of investment activity.[57] As well, the different objectives and methodologies of the studies demonstrate the problem of multiple definitions of the relevant meaning of "foreign". The analysis of property assessment notices or the use of sample-based methods may lead to over- or under-estimation, while sampling certain geographical regions or segments of the market provides a limited view of the overall prevalence of foreign investment; this also prevents an evaluation of the significance of foreign investment, relative to other phenomena. Additionally, doubts about the reliability of such methods and the impartiality of study authors have led to some public scepticism about certain findings.[58] Despite the apparent low level of foreign investment reported by these studies, perceptions about the role of foreign investors persist, especially with respect to the disparity between local incomes and housing prices.

[54] Ibid., 5.
[55] British Columbia Real Estate Association, *Market Implications of Foreign Buyers* (Vancouver: British Columbia Real Estate Association, 2015), 5.
[56] Maurice Gauder, Claire Houssard, and David Orsmond, "Foreign Investment in Residential Real Estate," *Reserve Bank of Australia Bulletin* June Quarter 2014, 12.

[57] See, for example, P.F., "The B.C. Bolthole," *The Economist*, June 17, 2014, http://www.economist.com/blogs/americas-view/2014/06/housing-vancouver/; Garry Mar, "CMHC admits 'data gap' in foreign ownership of Canadian real estate," *Financial Post*, October 20, 2014, http://business.financialpost.com/personal-finance/mortgages-real-estate/cmhc-admits-data-gap-in-foreign-ownership-of-canadian-real-estate/; Pete McMartin, "Australia has real estate data about offshore investment; why don't we?" *Vancouver Sun*, June 20, 2015, http://www.vancouversun.com/business/Pete+McMartin+Australia+real+estate+data+about+offshore+investment/11151872/story.html; Vancouver Mayor's Task Force on Housing Affordability, *Academic Working Group – Foreign Investment Report* (Vancouver: Mayor's Task Force on Housing Affordability, 2012), 1.
[58] Douglas Todd, "Five problems with Metro Vancouver's housing debate," *Vancouver Sun*, August 1, 2015, http://www.vancouversun.com/business/Douglas+Todd+Five+problems+with+Metro+Vancouver+housing+debate/11258650/story.html.

These shortcomings have given rise to several considerations for the collection of data on foreign investment in real estate. Ultimately, the issue of which metrics to track, if any, is a policy question. Some have advocated in favour of mandatory collection and reporting of data on investment transactions and other housing indicators, such as the extent of housing vacancies and speculative activity, by an independent authority.[59] The involvement of an official government entity is likely to reduce the distrust that has met some existing analyses of foreign real estate investment. In Australia, for example, all foreign acquisitions of real estate must be approved by the Foreign Investment Review Board, which aggregates and publishes data on the number of regulatory approvals.[60] More thorough and rigorous data collection can help to instill confidence in the findings and avert any misperceptions, which could alleviate the contentiousness of the current debate. However, should greater data collection and reporting requirements be adopted, these should ideally be balanced against the administrative resources required.[61] Depending on the mechanisms adopted, these efforts could also result in increased transaction costs and processing delays for investors. Finally, the definitional aspect of the data collection strategy should be carefully considered with reference to the purposes that the data is intended to serve.

IMPACT ON HOUSING AFFORDABILITY

Closely related to the extent of foreign investment are questions about its impact on housing affordability. In principle, the economic impact of a given investment does not differ based on whether the capital involved originates from domestic or foreign sources. Domestic and foreign investment can have positive effects on the supply of housing by stimulating property development.[62] However, excessive demand from foreign or non-local investors has the potential to distort real estate markets, raising housing costs beyond the reach of some local residents.[63] At the same time, other macroeconomic factors, such as general economic growth, may interact separately with housing prices.[64] Some commentators have argued that Vancouver's affordability problem is chiefly the result of supply dynamics, rather than demand from abroad.[65] Thus, the effects of foreign investment on housing affordability should be distinguished from those of both domestic investment and non-investment factors.

Rather than the *foreign* nature of such investments *per se*, what is relevant to housing affordability appears to be the level of investor demand and any differences in the behaviour of foreign investors, compared to domestic investors.[66] Irrespective of its origins, investment in residential property can reduce the available housing stock, depending on the usage of the property. The acquisition of residential property as a form of investment, rather than

[59] Brian Morton, "Politicians, activists call for data on foreign investment in Vancouver real estate," *Vancouver Sun*, June 25, 2015, http://www.vancouversun.com/business/Politicians+activists+call+-data+foreign+investment+Vancouver+real+estate/11164220/story.html.
[60] Gauder, Houssard, and Orsmond, 11.
[61] Ibid., 18.

[62] Ibid., 16.
[63] Wen-Chi Liao et al., "Foreign liquidity to real estate market: Ripple effect and housing price dynamics," *Urban Studies* 52, no. 1 (2015): 139; Hassan Fereidouni Gholipour, Usama Al-mulali, and Abdul Hakim Mohammed, "Foreign investments in real estate, economic growth and property prices: evidence from OECD countries," *Journal of Economic Policy Reform* 17, no. 1 (2014): 35.
[64] Gholipour, Al-mulali, and Mohammed, 43.
[65] British Columbia Real Estate Association, 3; "Vancouver real estate prices not the fault of foreign buyers, says new report," *CBC News*, June 10, 2015, http://www.cbc.ca/news/canada/british-columbia/vancouver-real-estate-prices-not-the-fault-of-foreign-buyers-says-new-report-1.3108197/.
[66] See Vancouver Mayor's Task Force on Housing Affordability, 2.

for occupancy, may be one reason for this outcome. For example, speculative investment activity, characterised by short-term trading or "flipping" of residential properties, can foster price appreciations and worsen housing affordability, since short-term ownership is not conducive to rental or other occupancy arrangements. Property speculation is not unique to either domestic or foreign investors; hence, the central question here is whether foreign investment engenders higher levels of speculative activity and the attendant price increases.

In Vancouver, some have suggested that many foreign investors perceive real estate primarily as a safe vehicle in which to protect overseas assets, rather than as a source of returns. Due to its economic growth and ranking as one of the world's most "liveable cities", it has been identified as a so-called "hedge city", where investors can "park sizable funds in local, residential real estate as a hedge against risk."[67] Because these investors are thought to be less deterred from overpaying and less interested in occupying or renting out residential properties than domestic investors, this influx of investment can lead to higher housing prices in the local market.[68] Such acquisitions of real estate might not be considered conventional profit-seeking investments, and in this respect may or may not differ from the general profile of domestic property investment. Recently, public discussions about the adoption of a "speculation tax" have emerged in response to this concern.[69] Nonetheless, from the data currently available, it is not evident to what degree foreign speculation might influence the Vancouver housing market. Some of the aforementioned studies have attempted to discern the proclivity of foreign investors to occupy or rent their properties, but as stated, it is necessary to infer, though difficult to reach, definitive conclusions about the overall prevalence of speculation.

As it is primarily a concern for first-time homebuyers or renters, a further question is what specific effects foreign investment has on the relevant segment of the market for these individuals. Given that a large share of foreign investment appears to be focused on luxury properties, some industry observers have argued that it does not drastically affect first-time buyers and have cautioned that average price figures can be deceiving if used as an indicator of affordability.[70] However, increased demand in one segment of the market could potentially affect another segment; some empirical research has suggested the existence of a "ripple effect" in certain real estate markets, whereby price changes diffuse spatially or across quality tiers of the market.[71] In this way, it is conceivable that foreign investment could contribute to higher non-luxury housing prices, despite the ostensible focus of those investors. The shortage of single-family housing in Vancouver raises further questions about the impacts of

[67] PwC and the Urban Land Institute, *Emerging Trends in Real Estate: Canada and United States 2015* (Washington: PwC and the Urban Land Institute, 2014), 20.
[68] James Surowiecki, "Real Estate Goes Global," *New Yorker*, May 26, 2014, http://www.newyorker.com/magazine/2014/05/26/real-estate-goes-global/.
[69] Frances Bula, "High-profile condo marketer calls for B.C. speculation tax."

[70] British Columbia Real Estate Association, 3. See also Benjamin Tal and Andrew Grantham, 8.
[71] See Liao et al., 156; Lok Sang Ho, Yue Ma, and Donald R. Haurin, "Domino Effects Within a Housing Market: The Transmission of House Price Changes Across Quality Tiers," *Journal of Real Estate Finance and Economics* 37, no. 4 (2008): 307-313; Sean Holly, M. Hashem Pesaran, and Takashi Yamagata, "The spatial and temporal diffusion of house prices in the UK," *Journal of Urban Economics* 69, no. 1 (2011): 14. Ho, Ma, and Haurin describe a "domino effect" in price changes from low quality tiers to high quality tiers of the housing market in Hong Kong.

foreign investment on supply and demand dynamics for this specific market category. The economic implications of purchasing old homes for demolition and redevelopment in Vancouver is another possible area of inquiry, since it is unclear to what extent foreign investors are involved in this practice.[72] The consequences of foreign investment in residential property for the entry-level and single-family housing markets would be a key factor for how potential policy responses are devised.

Currently, there is insufficient data in Canada to assess the economic impact of foreign investment in real estate. By extension, it is difficult to determine whether a policy intervention is warranted. Various factors can influence housing supply and prices, and recent debates over affordability attest to the difficulty of isolating these influences. The relative impact of foreign investment, compared to other factors such as regulations on development in Vancouver, has been one focus of political dispute.[73] Moreover, foreign acquirers of residential property are not homogeneous. This category may include prospective immigrants; in this case, an acquisition does not necessarily count as detracting from the housing supply, since as citizens or permanent residents they would have sought to acquire or occupy the property anyway.[74] Strong public support apparently exists for a tax on absentee homeowners,[75] but there are various reasons that residential properties may be vacant, which do not have a uniform effect on affordability. It is for this reason that the Vancouver Mayor's Task Force on Housing Affordability concluded in 2012 that more detailed study is needed prior to any action.[76]

A further obstacle to any policy intervention is the complications associated with the potentially divergent interests of the three orders of government. Regulation of real estate in Canada is generally a matter of provincial jurisdiction, though federal and provincial governments may both be entitled to act in relation to foreign acquisitions of real estate. Various taxation measures proposed to address investor demand for real estate, accordingly, fall within provincial jurisdiction. However, the federal and municipal governments have important roles in managing housing affordability, and conflicting priorities could impede or detract from the effectiveness of a given policy response. This obstacle is illustrated by the recent impasse between the provincial and municipal governments over the merits of adopting a "speculation" tax on residential property in Vancouver. For the province, the risk of an "unintended effect" and a desire not to "compromise government efforts to welcome foreign investment" militated against such a policy.[77] In contrast, the municipal government has faced local resident pressure to take action to alleviate rising housing prices.[78] Similar to the Australian experience,[79] federal policy has a relevant role on this issue as well. For instance, some observers have speculated that one consequence of the now-discontinued Investor Immigrant Program was increased demand for

[72] Kerry Gold, "As pace of home demolitions quickens, Vancouver protest grows," *The Globe and Mail*, May 30, 2014, http://www.theglobeandmail.com/life/home-and-garden/real-estate/as-pace-of-home-demolitions-quickens-vancouver-protest-grows/article18925116/.

[73] Sam Cooper, "Report points fingers over who's driving up Metro Vancouver property prices," *The Province*, June 17, 2015, http://www.theprovince.com/business/Reports+point+fingers+over+driving+Metro+Vancouver+property+prices/11141419/story.html. See also Coriolis Consulting, "CAC Policy and Housing Affordability: Review for the City of Vancouver," 26.

[74] See Gauder, Houssard, and Orsmond, 15.

[75] Insights West, 2. The survey question did not refer to specifically domestic or foreign absentee homeowners.

[76] Vancouver Mayor's Task Force on Housing Affordability, 6.

[77] Mike Howell, "Vancouver should do more to make housing more affordable: Christy Clark," *Vancouver Courier / Business in Vancouver*, June 5, 2015, https://www.biv.com/article/2015/6/vancouver-should-do-more-make-housing-more-afforda/.

[78] Brent Jang, "To control property prices in B.C. Robertson calls for housing spec tax," *The Globe and Mail*, May 24, 2015, http://www.theglobeandmail.com/news/british-columbia/to-control-property-prices-in-bc-robertson-calls-for-housing-spec-tax/article24585519/.

[79] See Rogers, Lee, and Yan, 9.

Vancouver real estate.[80] How the interests and actions of each order of government interact will affect efforts to regulate foreign investment in this sector.

Additionally, the impact of foreign investment on housing affordability in Vancouver may have, or be perceived to have, long-term economic implications. Already, a "labour crisis" has been cited as a potential risk of the trend of increasing housing costs, which are predicted to encourage workers to depart rather than face these barriers.[81] If foreign investment is a major contributor to vacancy rates and increased housing prices, as some have argued, then this aspect of the controversy is relevant, more broadly, to the region's economic development as well. The problems this may create for the local labour market would naturally be expected to translate into "an underperforming urban economy."[82] Paradoxically, such a risk could ultimately detract from the city's attractiveness as a housing market, which derives partly from its economic growth and quality of life.[83] This link between foreign investment and the labour market, though conjectural, underscores the broader context and significance of this dimension of the controversy for the Vancouver region.

The effectiveness of any policy response to foreign real estate investment, aimed at addressing housing affordability, depends on a better understanding of the nature and prevalence of this investment. On this issue, enhanced data could most usefully enable analyses of four elements: the degree of speculation by foreign, compared to domestic, investors; the influence of foreign ownership on occupancy rates; the effects of foreign investment on entry-level and family dwellings; and the significance of foreign investment relative to other factors. Recognizing that foreign investment can have both beneficial and detrimental consequences, more detailed information is needed to evaluate claims about its impact on housing supply and prices, especially for first-time homebuyers. Estimates based on the available data describe only a portion of the entire housing market, creating uncertainties about any inferences drawn. Knowing the scope of foreign investment can also help to determine its impact relative to other economic factors and justify policy proposals. As well, such proposals should ideally consider the intergovernmental dynamics involved, which could influence the effectiveness of a policy response.

---

[80] Ian Young, "Canada's immigrant investor scheme: How the rug has been pulled from under the rich," *South China Morning Post*, February 12, 2014, http://www.scmp.com/news/world/article/1426636/rug-pulled-under-rich/; Garry Marr, "How Canada's new immigration rules could slow high end real estate sales," *Financial Post*, February 12, 2014, http://business.financialpost.com/personal-finance/mortgages-real-estate/how-canadas-new-immigration-rules-could-slow-high-end-real-estate-sales/. However, compare Dan Scarrow, "What Changes to the Immigrant Investor Program Means for Vancouver Real Estate," *Macdonald Realty* (blog), March 17, 2014, http://www.macrealty.com/blog/What-Changes-to-the-Immigrant-Investor-Program-Means-for-Vancouver/.

[81] Vancouver City Savings Credit Union, 7-8.

[82] Ibid., 8.

[83] Arcand et al., 72.

LEGALITY OF CAPITAL TRANSFERRED FROM ABROAD

Aside from its effects on housing affordability, the legality and probity of the foreign capital used in real estate investments has attracted controversy, particularly capital originating from China. Because Chinese capital controls generally prohibit individuals from converting more than US$50,000 worth of renminbi into foreign currency per year,[84] questions have arisen about how these investors are able to pay for residential properties in Canada and elsewhere.[85] The indeterminate legality of various capital transfer mechanisms creates concerns that encompass not only foreign *investors*, but also foreign *capital*, since it is thought that some domestic investors (i.e. Canadian citizens or permanent residents) use overseas capital to finance their acquisitions of residential property.[86] Difficulties arising from this facet of the real estate investment controversy relate to the need to address financial crime and Canada's engagement with China on this sensitive issue.

Unlawful efforts by Chinese nationals, seeking to invest overseas, and financial institutions to circumvent these controls have been exposed in the past, including private banking channels, "underground banks", and splitting money transfers through accomplices.[87] For example, China Central Television alleged in 2014 that the Bank of China was laundering money through a *youhuitong* ("superior foreign-exchange channel") service that reportedly allowed wealthy individuals to transfer unlimited funds overseas, an allegation that the bank denied.[88] According to one estimate, US$3.2 billion was transferred out of China through this channel.[89] In addition, the Chinese underground banking system has been widely used for foreign exchange purposes. Often operated in partnership with associates in Hong Kong or overseas, these banks enable prospective investors to "convert" Chinese yuan into other currencies by matching the funds of inward investors with those of outward investors.[90] The full extent of illegal foreign exchange is unknown, but the capital outflow is significant. China's State Administration of Foreign Exchange recently announced that in 2014, it detected 32 illegal cases, including underground banks, involving over RMB 222 billion (US$35 billion) in unauthorized transfers.[91] While they may constitute only a fraction of these outflows, it is plausible that some foreign capital in Canadian real estate markets had been illegally transferred.

---

[84] Guonan Ma and Robert N. McCauley, "Do China's capital controls still bind? Implications for monetary autonomy and capital liberalisation," *BIS Working Papers*, no. 233 (2007): 24.

[85] Sam Cooper, "All levels of government urged to act on 'hot money' from China by former ambassador David Mulroney." See also Helen Clark, "Property, Probity, High Prices: China and Australia's Real Estate Market," *The Diplomat*, June 5, 2015, http://thediplomat.com/2015/06/property-probity-high-prices-china-and-australias-real-estate-market/.

[86] Young, "Bogus 'analysis' obscures the role of foreign money in Vancouver's runaway housing market."

[87] Keira Lu Huang, "How do rich Chinese elude foreign exchange laws to move their money abroad?," *South China Morning Post*, July 10, 2014, http://www.scmp.com/business/banking-finance/article/1551510/how-elude-chinese-foreign-exchange-laws-take-your-pick-ways?page=all.

[88] Pete Sweeney, "Bank of China denies state TV allegations of money laundering," *Reuters*, July 9, 2014, http://www.reuters.com/article/2014/07/09/china-stocks-idUSL4N0PK2EO20140709/.

[89] "Secret Path Revealed for Chinese Billions Overseas," *Bloomberg*, July 14, 2014, http://www.bloomberg.com/news/articles/2014-07-14/secret-path-revealed-for-chinese-billions-overseas/.

[90] Linda Shuo Zhao, "Chinese Underground Banks and Their Connections With Crime: A Review and an Appraisal," *International Criminal Justice Review* 22, no. 1 (2012): 12, 18; Alex Frangos, "The Mechanics of Moving Cash Out of China," *China Real Time Report* (blog), *Wall Street Journal*, October 19, 2012, http://blogs.wsj.com/chinarealtime/2012/10/19/how-hong-kongs-legal-system-enables-china-cash-flight/.

[91] State Administration of Foreign Exchange, People's Republic of China, "Pressing Ahead with Credit System Construction in Foreign Exchange Area to Promote Healthy and Orderly Operation of Foreign Exchange Market," announcement, July 24, 2015, http://www.safe.gov.cn/wps/portal/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gPZxdnX293QwN_f0tXA08zR9PgYGd3Yx8fE_2CbEdFAM9sw9Y!/?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/safe_web_store/state+administration+of+foreign+exchange/safe+news/321c0a8049386ae8a38de781806a8331.

Since the origin of the transferred money is unknown, the use of illicit capital transfer methods is worrying in itself. These methods enable prospective investors to evade tax, customs, and foreign exchange controls,[92] prompting concerns that the funds used in some real estate investments may be the proceeds of financial crimes or other criminal activities. Real estate has historically served as a means of laundering money by criminal organisations,[93] but the alleged involvement of individual foreign investors appears to be a relatively new development. Vancouver is thought to be an emerging international hub for money laundering for a variety of reasons, including its status as a global gateway city and the hot local real estate market.[94]

Serious allegations have emerged that some foreign capital may have been illegally acquired or is linked to public corruption in China. Following the launch of the Chinese anti-corruption campaign in 2012, there have been anecdotal reports of increased Chinese investor interest in overseas real estate, which have been cited as instances of "capital flight" motivated by political considerations.[95] Over the past few months, suspicions of money laundering by foreign investors in the Vancouver real estate market have arisen, with media reports of "large wealth allegedly misappropriated in China and invested in condo and commercial developments and private residences."[96] The veracity of these claims have not been officially confirmed, though such concerns are not unique to Canada; a November 2014 report from the Parliament of Australia recommended that foreign investment in residential property be considered during a review of anti-money laundering legislation.[97]

Investigations into alleged cases of money laundering by foreign investors are ongoing, and accordingly there is limited information on the prevalence of these cases. However, the magnitude of the problem should not be overstated. No direct evidence systematically linking financial crime to foreign real estate investment in Canada has been adduced. Considering the marginal level of criminal transactions in the real estate market in general, it is unlikely that foreign money laundering is a significant factor behind appreciating housing prices.[98]

Nevertheless, the problem of how to respond to allegations of financial crime or of corruption against former Chinese officials residing in Canada remains troublesome. Similar to other aspects of the real estate controversy, public perceptions of the financial probity of foreign investments in Canada have mainly been informed by anecdotal reports, rather than firm evidence. The prospect of illegally transferred or acquired funds entering the real estate market in Vancouver, or elsewhere in Canada, provides

[92] Zhao, 13.
[93] Stephen Schneider, "Organized crime, money laundering, and the real estate market in Canada," *Journal of Property Research* 21, no. 2 (2004): 99-100.
[94] Dan Fumano, "Vancouver has become a 'critical money laundering hub' for international criminals, experts say," *National Post*, May 1, 2015, http://news.nationalpost.com/news/canada/vancouver-has-become-a-critical-money-laundering-hub-for-international-criminals-experts-say/.
[95] See, for example, Julie Gordon, "Vancouver prime property market sizzles, fuelled by China cash"; Helen Clark, "Property, Probity, High Prices: China and Australia's Real Estate Market."
[96] Sam Cooper, "Chinese police run secret operations in B.C. to hunt allegedly corrupt officials and laundered money," *The Province*, March 4, 2015, http://www.theprovince.com/business/Chinese+police+secret+operations+hunt+allegedly+corrupt/10861987/story.html. See also Jason Proctor, "Mo Yeung (Michael) Ching, Vancouver developer, accused of embezzlement in China," *CBC News*, May 2, 2015, http://www.cbc.ca/news/canada/british-columbia/mo-yeung-michael-ching-vancouver-developer-accused-of-embezzlement-in-china-1.3058215/; Jeff Lee, "U.S. alleges Metro Vancouver homes were part of scheme to launder money embezzled in China," *Vancouver Sun*, March 28, 2015, http://www.vancouversun.com/news/alleges+Metro+Vancouver+homes+were+part+scheme+launder+money+embezzled+China/10926774/story.html.
[97] Parliament of the Commonwealth of Australia, *Report on Foreign Investment in Residential Real Estate* (Canberra: Commonwealth of Australia, 2014), 77.
[98] Schneider, 114.

an impetus to develop or improve policies to identify and deter such cases. Yet, combatting international financial crime often necessitates working with foreign authorities. Notwithstanding the normal difficulties of international criminal investigations and extraditions, cooperation with China can be controversial due to public apprehensions about due process and the treatment of accused persons.[99] Claims that Chinese police agents are conducting operations in Canada with the aim of repatriating suspects and illegal assets, with the possible cooperation of Canadian governments, have attracted some media attention.[100] These circumstances implicate broader questions about addressing international financial crime in Canada and navigating this sensitive area of Canada-China relations.

CULTURAL / ETHNIC TENSIONS

The personal resonances associated with housing issues have introduced a social and cultural dimension to the public debate on foreign investment. One instance of these resonances can be observed in the desire of local residents to preserve the historical character of neighbourhoods in the face of the redevelopment pressures of a hot real estate market.[101] The economic and social impacts of excessive vacancy rates in certain neighbourhoods, claimed to be worsened by foreign investment, has also been a cause of trepidation. Some residents have pointed to what they perceive as the "hollowing out" of parts of the city, such as Kitsilano and Coal Harbour, with anecdotal reports of houses and streets left empty, allegedly due to an influx of property speculation.[102] The possible repercussions of high vacancy for local businesses is a major concern,[103] but equally important to consider are its implications for the social cohesion and liveliness of neighbourhood communities. For many Canadians, these implications serve to emphasize the personal salience of issues related to foreign real estate investment.

More controversially, however, some aspects of the debate over regulation of foreign investment have provoked concerns about the potential for cultural or ethnic discord. To some extent, such concerns are arguably fostered by the complicated history of past disputes regarding property investment and development in Vancouver. For instance, the debate over heritage conservation measures in residential neighbourhoods, which intensified in the

[99] See, for example, Rod Nickel, "Immigration lawyer says Canada naive about China corruption cases," *Reuters*, June 2, 2015, http://uk.reuters.com/article/2015/06/02/uk-canada-china-lawyer-idUKKBN0OI2QD20150602/.

[100] Cooper, "Chinese police run secret operations in B.C. to hunt allegedly corrupt officials and laundered money"; Terry Glavin, "Canada's unhappy affair with China's princeling millionaires," *National Post*, April 22, 2015, http://news.nationalpost.com/full-comment/terry-glavin-canadas-unhappy-affair-with-chinas-princeling-millionaires/; Sam Cooper, "Richmond property lawsuit has apparent link to another name on Chinese 'Sky Net' wanted list," *The Province*, April 30, 2015, http://www.theprovince.com/news/Richmond+property+lawsuit+apparent+link+another+name+Chinese+wanted+list/11018354/story.html.

[101] Mackie, "A fight for a vanishing Vancouver."

[102] Sam Cooper, "Rental home supply dries up in Vancouver creating 'zombie neighbourhoods'," *The Province*, November 28, 2014, http://www.theprovince.com/business/Rental+home+supply+dries+Vancouver+creating+zombie+neighbourhoods+with+video/10417103/story.html.

[103] Kerry Gold, "The problem with vacant homes amid Vancouver's real estate boom."

1990s and continues today,[104] once evoked not only claims about property rights, but also became entangled with clashes between the symbolic and the exchange value of properties, charges of racism, and polarizing questions about the aesthetics and meaning of local landscapes.[105] In this context, highly personal, affective narratives can direct public perceptions in the absence of clear facts to ground the debate.[106] These concerns are not necessarily unique to issues surrounding foreign investment or real estate, but nonetheless deserve serious consideration. They extend to both discussions about the causes of, and the appropriate responses to, the housing issues that give rise to this controversy.

To some observers, the public discourse on foreign investment in relation to housing affordability problems has appeared unbalanced, or even prejudicial, at times. As Chinese investors and investments have received prominent coverage in the media, these concerns have been particularly acute among individuals of Chinese and East Asian heritage. In a May 2015 survey conducted in British Columbia, 21% of all respondents agreed that the debate on foreign real estate ownership was "inherently racist", a proportion that increased to 35% in respondents of East Asian descent.[107] Although a majority of all respondents (70%) disagreed that the debate was racist, this disparity raises questions about the cultural or ethnic tensions that could emerge from superficial portrayals and perceptions of foreign investment.[108] As discussed previously, the complications of measuring this investment may be one factor in sustaining such perceptions. A recent case of vandalism in Nanaimo, where advertisements by Chinese-Chinese real estate agents were defaced, provides a troubling example of the possible animosity that is the subject of these fears.[109]

A similar apprehension has fostered some suspicion of proposals to regulate foreign investment, which some view as unfairly targeting particular countries or ethnic groups. In Vancouver, one developer has publicly opposed restrictions on foreign investment in favour of a speculation tax, alleging a "racist undertone that is rampant,"[110] while the Mayor's Task Force on Housing Affordability has cautioned that policy action might be "racially and ethnically divisive."[111]

At the same time, it is essential that a frank, meaningful discussion of foreign investment can occur. Other commentators have criticized the reluctance of Canadian politicians to deliberate substantively on the possibility of regulating foreign investment, which they attribute to a desire to avoid allegations of racism or xenophobia.[112]

---

[104] Barbara Yaffe, "Heritage battle comes to Vancouver's wealthiest neighbourhood," *Vancouver Sun*, July 28, 2015, http://www.vancouversun.com/business/Barbara+Yaffe+Heritage+battle+comes+Vancouver+wealthiest+neighbourhood/11249482/story.html; John Mackie, "Don't hurt Vancouver property values, city told," *Vancouver Sun*, July 29, 2015, http://www.vancouversun.com/business/hurt+Vancouver+property+values+city+told/11249659/story.html.
[105] Ley, 196-197, 199-202.
[106] Rogers, Lee, and Yan, 13.
[107] Insights West, 3.
[108] Pete McMartin, "We don't have enough facts about foreign ownership of real estate," *Vancouver Sun*, May 31, 2015, http://www.vancouversun.com/business/Pete+McMartin+have+enough+-facts+about+foreign+ownership+real+estate/11100494/story.html.
[109] " 'Go away': Chinese ads defaced with racist messages in Nanaimo," *CTV News*, June 15, 2015, http://vancouverisland.ctvnews.ca/go-away-chinese-ads-defaced-with-racist-messages-in-nanaimo-1.2424140/.
[110] Derrick Penner, "Speculation tax proposed as one solution to Vancouver housing affordability," *Vancouver Sun*, May 23, 2015, http://www.vancouversun.com/business/Speculation+proposed+solution+Vancouver+housing+affordability/11076296/story.html.
[111] Vancouver Mayor's Task Force on Housing Affordability, 2.
[112] Elizabeth McSheffrey, "Track foreign buying of real estate, says Chinese Canadian group," *Vancouver Observer*, June 19, 2015, http://www.vancouverobserver.com/news/track-foreign-buying-real-estate-says-chinese-canadian-group/; Jonathan Manthorpe, "Vancouver: not mind-numbingly boring, but vacuously vain," *Facts & Opinions*, May 29, 2015, http://www.factsandopinions.com/galleries/opinion-columns/jonathan-manthorp-international-affairs/vancouver-not-mind-numbingly-boring-but-vacuously-vain/. See also Chris Sorensen, "The crazy world of peak real estate," *Macleans*, June 13, 2015, http://www.macleans.ca/economy/realestateeconomy/the-crazy-world-of-peak-real-estate/.

The presumption of cultural or ethnic bias can foster a chilling effect that undermines the ability to debate and act on issues of public significance. Advocacy of foreign investment regulation represents a response to a legitimate public policy issue and should not, in itself, be conflated with racist motivations.

Independent of the economic impacts of foreign investment, the social and cultural dimension of the controversy presents further reasons to pursue better information to dispel misperceptions and distrust. The provision of facts can serve to de-escalate these tensions, by directing public discourse away from anecdotal, and possibly disputatious, narratives toward a more informed, objective discussion. An impartial, official entity collecting and reporting this information, in a non-discriminatory manner, can help to reduce the concerns of both those troubled by the possibility of racism and those who fear their motivations will be wrongly imputed.

REGULATORY SITUATION IN SELECTED COUNTRIES

To date, this controversy has elicited various policy proposals to regulate foreign investment in real estate in Canada. However, there have been relatively few discussions regarding the regulatory approaches adopted in other countries that have faced similar circumstances. Relevant policies from Australia, mainland China, Hong Kong, Taiwan, New Zealand, Singapore, the United Kingdom, and the United States are presented here as representative examples of regulations on foreign investment in urban real estate in other parts of the world. Recognizing that the challenges associated with cross-border investment in real estate are not unique to a single country, the experiences of these selected countries can help inform the ongoing public debate and any future policy decisions in Canada.

Regulations on Foreign Investment in Urban Real Estate in Selected Countries

Country		Summary
Australia		• Foreign investors and temporary residents are permitted to purchase vacant residential land and new residential property. Temporary residents may purchase a maximum of one established residential property for personal use; foreigners may apply to purchase established residential properties for redevelopment only. • Government approval is required for foreign purchases of vacant land for commercial purposes and non-heritage commercial properties valued at AU$55 million or above (for non-FTA partner countries). • All foreign acquisitions of real estate must be approved by the Foreign Investment Review Board (FIRB), which publishes annual data on the cumulative number and value of approvals. • Foreign investors must pay an application fee of AU$5,000 to the FIRB, with an additional AU$10,000 for every additional AU$1 million in property value (effective December 2015). • Criminal and civil penalties for failure to comply with foreign investment regulations, including for third parties that assist foreign investors to breach the rules (effective December 2015).
China	Mainland	• Foreign individuals are permitted to purchase only one residence for self-use. • Foreign enterprises are permitted to purchase non-residential properties for self-use, as well as invest in land development, the construction and operation of high-end commercial properties, and the real estate secondary market. • Foreign investors are subject to an Urban Real Estate Tax of 1.2% on the sale of house property and 18% on rental income from house property.
	Hong Kong	• Foreign buyers are subject to an *ad valorem* stamp duty on the sale or transfer of immovable property, starting at 1.5% of the value of the property, with the rate increasing for higher-valued property. • To discourage speculation, a Special Stamp Duty (SSD) is applied to the resale of property held for less than 36 months, at rates between 10-20% of the value of the property, depending on the holding period. The SSD applies to all foreign and domestic investors, with some exceptions. • Foreign buyers are subject to a Buyer's Stamp Duty of 15% of the value of the property on the acquisition of residential property.

Regulations on Foreign Investment in Urban Real Estate in Selected Countries

Country	Summary	
China	Taiwan	• Foreign acquisitions of real estate are conditional on reciprocal treatment for Taiwanese investors. If Taiwanese investors are permitted to acquire real estate in the foreigner's home country, then investors of that country are permitted to do so in Taiwan. • Residential property that is not occupied by the owner and sold within two years of purchase will be taxed at a rate between 10-15%. A reform to consolidate housing and property tax is underway, with proposed rates of 17% for locals and 30% for foreigners.
New Zealand	• Foreign acquisitions of real estate are generally unrestricted, except for land classified as "sensitive" and business assets over NZ$100 million. • Effective October 2015, capital gains tax will be applied on property sold within two years of purchase and non-residents must provide certain tax identification information.	
Singapore	• Except in Sentosa Cove, foreign ownership of vacant residential land or houses (and other landed property) is generally restricted to those persons who are of "economic benefit" to Singapore. Government approval to acquire these properties is typically conditional on the properties being owner-occupied. • Foreigners may purchase, without government approval, condominium units and commercial properties. • Foreign buyers are subject to an Additional Buyer's Stamp Duty (ABSD) of 15% on top of a Buyer's Stamp Duty of 1-3% for purchases of residential property. Citizens of the United States, Switzerland, Lichtenstein, Norway, and Iceland are exempt from the ABSD, due to bilateral tax treaties. • Sales of residential and industrial property held for less than 4 years may be subject to a Seller's Stamp Duty of 4-16%, with the rate depending on the holding period and type of property.	
United Kingdom	• Foreign investors are permitted to acquire both residential and non-residential property without restriction. • In England, Wales, and Northern Ireland, a Stamp Duty Land Tax is applied to the sale of residential (2-12%) and non-residential (1-4%) property above £125,000 and £150,000, respectively. • Action was taken in February 2015 to close a tax loophole, ensuring that foreign investors would be subject to capital gains tax of up to 28% on the sale of property. • The government announced in July 2015 that in the autumn of 2015, the Land Registry will publish data on which foreign companies own land and property titles in England and Wales.	
United States	• Foreign investors are permitted to acquire both residential and non-residential property without restriction, except where such acquisitions may affect national security. • Income from rents or the sale of property may be subject to various withholding and capital gains taxes.	

AUSTRALIA

As in Canada, foreign investment in real estate has been a controversial topic in Australia. Similar concerns have been expressed regarding the impact of foreign investment on housing prices and the legality of some foreign capital, even as the potential cultural and ethnic divisiveness of the issue have attracted public attention.[113] In 2013-14, government approvals for commercial and residential real estate investment in Australia from all foreign sources totalled AU$74.6 billion.[114] According to a report released by KPMG and the University of Sydney, commercial real estate transactions reached an estimated AU$4.37 billion, representing 46% of Chinese investment in Australia in 2014, up from only 14% in the previous year.[115] With foreign investment in this sector projected to increase even further, the issue remains salient and contentious. The public concerns about foreign ownership in real estate, the hot real estate markets in Sydney and Melbourne, and an ongoing public debate on the issue in Australia provide a close parallel to the controversy in Canada.

In Australia, the Foreign Investment Review Board (FIRB) is responsible for examining and advising on the approval or rejection of proposed investments that are subject to the government's *Foreign Investment Policy*. Different regulations apply to foreign (i.e. non-Australian citizens or permanent residents) purchases of commercial, residential, and agricultural real estate; this paper focuses on the first two categories.

Government notification and approval is required for foreign purchases of vacant land for commercial development and commercial properties valued at AU$55 million or more, unless the property is listed as a heritage property. Vacant land not used for agricultural purposes, such as land for mining, falls within this category. Heritage-listed commercial properties are subject to a special threshold of AU$5 million. Purchases of commercial real estate are normally approved, with development conditions for vacant land.[116]

According to the Australian government, the goal of its regulations on foreign investment in residential real estate is to ensure that such investments "increase Australia's housing stock."[117] Government notification and approval is required for all purchases of vacant land for residential development and of a new residential property, which is defined as one that "has not been previously sold by the developer and has not been previously occupied…for more than 12 months."[118] These purchases are normally approved, with development conditions for transactions involving vacant land. In accordance with the stated goal of the regulations, foreigners and temporary residents are prohibited from purchasing established residential property, with limited exceptions. Temporary residents may acquire one established property to serve as their

[113] See, for example, Stephen Kirchner, "Don't blame foreigners for rising house prices," *Sydney Morning Herald*, March 20, 2014, http://www.smh.com.au/comment/dont-blame-foreigners-for-rising-house-prices-20140319-352nn.html; Sally Rose, "FIRB Chinese real estate buyer crackdown called 'racist' as Ray White urges calm," *Sydney Morning Herald*, March 26, 2015, http://www.smh.com.au/business/firb-chinese-real-estate-buyer-crackdown-called-racist-as-ray-white-urges-calm-20150325-1m7k2r.html.

[114] Australian Government, Foreign Investment Review Board, *Annual Report 2013-14* (Canberra: Commonwealth of Australia, 2015), 26; Knight Frank, *Australian Market Insight May 2015*, 11. This figure is best considered a conservative estimate of all foreign investment in the sector due to possible gaps in compliance: see note 123.

[115] KPMG Australia and the University of Sydney China Studies Centre, *Demystifying Chinese Investment in Australia: May 2015 Update* (Sydney: KPMG Australia and the University of Sydney China Studies Centre, 2015), 10.

[116] Treasurer of the Commonwealth of Australia, *Australia's Foreign Investment Policy*, 12.

[117] Ibid., 14.

[118] Ibid., 21.

main residence, and both foreigners and temporary residents are permitted to purchase established properties for demolition and subsequent redevelopment. Notably, government approval is not required for foreign purchases of dwelling units in buildings where the developer has obtained pre-approval to sell to foreigners through "off the plan certificates", such as condominiums.[119] Any properties purchased without approval must be divested.

Foreign investors who fail to comply with the notification and approval requirements are subject to criminal penalties, up to a maximum fine of AU$85,000 and imprisonment for two years for individuals and a maximum fine of AU$425,000 for corporations. Effective December 1, 2015, the criminal penalties will be increased to AU$127,500 and three years imprisonment for individuals and AU$637,500 for corporations, while civil penalties will be introduced to capture the capital gain resulting from the forced divestment of a property. As well, the new rules are expected to discourage future violations by ensuring that third parties, such as real estate agents, that assist investors in breaching the rules will be subject to civil and criminal penalties.[120]

FIRB data shows that between 1993 and 2013, the number of approvals of foreign acquisitions of new and established residential property increased, but comprised approximately 2% or less of the total number of residential transactions in the country. In 2013-14, foreign approvals to acquire residential real estate reached AU$34.7 billion.[121] Consistent with third-party reports, the data indicates that real estate investments have been concentrated in the gateway cities, Sydney and Melbourne, mirroring the situation in Canada.[122] However, some deficiencies of this estimate of foreign investment activity are the fact that FIRB approvals do not necessarily lead to purchases, the fact that an "off the plan certificate" is counted as a single approval, and cases of non-compliance with the regulatory requirements.[123] It should be noted that the approval process does not capture data on the occupancy/vacancy rates of foreign-owned residences, which is relevant to discussions on housing affordability.

Following longstanding public concerns, the Economics Committee of the Australian House of Representatives launched an inquiry into the economic benefits of foreign investment in residential property and the adequacy of the current foreign investment policy in May 2014.[124] The committee concluded that the current framework for foreign investment in residential real estate was appropriate, but that improvements to the audit, compliance, and enforcement processes were needed. Specifically, it criticized the lack of accurate and timely data on both cases of non-compliance and the actual number and value of investments. The committee indicated surprise that no divestment orders have been issued since 2008, stressing that it "defies belief that there has been universal compliance with the foreign investment framework."[125] However, it concluded that foreign investment "brings benefits to the housing market" and was "not causing the market distortions", due to their low prevalence overall and because foreign investors target different price brackets than first-time home buyers.[126] Released in November 2014, the committee's report also

[119] Ibid.,14-16.
[120] Treasurer of the Commonwealth of Australia, "Government strengthens the foreign investment framework," media release, May 2, 2015, http://jbh.ministers.treasury.gov.au/media-release/034-2015/.
[121] Australian Government, Foreign Investment Review Board, 28.
[122] Gauder, Houssard, and Orsmond, 14; Knight Frank, *Australian Market Insight May 2015*, 5.
[123] Australian Government, Foreign Investment Review Board, 15-16.
[124] Parliament of the Commonwealth of Australia, 2-3.
[125] Ibid., v, 27, 37, 74.
[126] Ibid., 95.

included recommendations to strengthen reporting and enforcement functions.[127]

Several changes resulted from these recommendations. Besides toughening the aforementioned criminal and civil penalties, the Australian government announced in May 2015 that it would charge fees for foreign investment applications. Beginning in December 2015, applications for government approval to purchase residential properties will be subject to an administrative fee, in order to address the costs of the approval process that were previously borne by taxpayers. The fee will start at AU$5,000 for properties valued below AU$1 million, increasing to AU$10,000 for properties valued above AU$1 million with an additional AU$10,000 for every further AU$1 million. Significantly, the government indicated that it was working with the states and territories to create a "comprehensive land register" that would provide information on the level of foreign ownership, including of residential real estate.[128] Developments arising from this particular initiative should be followed with interest, given the intense public and media interest in collecting similar, more detailed information in Canada.

A recent investigation into illegal foreign ownership of real estate by the Australian Taxation Office (ATO) accompanied these measures. To support the reforms, enforcement responsibility over foreign residential investments was transferred from the FIRB to the ATO; data sharing and matching between government agencies will facilitate the identification of suspected cases of non-compliance.[129] The investigation could potentially involve a review of 90,000 foreigners with property interests in Australia, although thus far, roughly 200 cases have been targeted for scrutiny.[130] As the probe continues, it is likely to provide a better indication of the extent and corresponding influence of illegal purchases in the real estate market. Notwithstanding some differences, the parallels with the Australian experience suggest that the conduct and results of the investigation could be instructive in Canada.

It is clear that Australia is shifting toward a more complex and sophisticated enforcement and review mechanism for foreign investment in residential property, spurred by sustained public unease over its impact on residents. Without altering the substantive rules that govern such investments, the present reforms have focused on improvements to the two pillars of data collection and enforcement capacity. This emphasis reflects the persisting uncertainties and public perceptions about the benefits and detriments of investment, a balance that the government has attempted to observe. While the new administrative fees and stricter penalties have attracted criticism from abroad,[131] the fact that the government has avoided increasing actual restrictions on foreign investment shows that it continues to view that investment as a net positive for the country. The controversy over foreign investment in real estate engages similar issues in Australia and Canada, and the measures adopted in Australia can provide a sense of the potential challenges and outcomes involved.

---

[127] Ibid., xvii-xix.
[128] Treasurer of the Commonwealth of Australia, "Government strengthens the foreign investment framework."
[129] Treasurer of the Commonwealth of Australia, "Strengthened foreign investment rules already producing results," media release, June 9, 2015, http://jbh.ministers.treasury.gov.au/media-release/055-2015/.

[130] Paul Cleary, "The property loophole," *The Australian*, July 3, 2015, http://www.theaustralian.com.au/news/features/the-property-loophole/story-e6frg6z6-1227425848436/; "Australian foreign investment real estate probe widens," *BBC News*, June 9, 2015, http://www.bbc.com/news/world-australia-33059029/.
[131] See, for example, "Australia risks Chinese backlash by cracking down on foreign investment laws," *Xinhua*, March 4, 2015, http://www.globalpost.com/article/6407735/2015/03/03/australia-risks-chinese-backlash-cracking-down-foreign-investment-laws/; Matt Walsh, "News Analysis: Australia's new foreign investment laws feared to drive away Chinese buyers," *Xinhua*, March 2, 2015, http://news.xinhuanet.com/english/2015-03/02/c_134030122.htm.

CHINA
Mainland

Foreign acquisition of real estate in mainland China is subject to a number of restrictions. Foreigners are prohibited from owning land, and foreign individuals are only permitted to own one residential property for self-use if they have been resident in China for at least one year. A recent step toward liberalization of the real estate sector occurred with the publication of China's 2015 Investment Catalogue, which removed some restrictions on land development, the construction and operation of high-end commercial property, and real estate transactions on the secondary market.

In July 2006, the Chinese government issued its "Opinions on Regulating the Market Access and Administration of Foreign Investment in Real Estate", which specified that foreign individuals and enterprises could only purchase properties in China for self-use. Foreign individuals must have resided in China for at least one year in order to purchase a residential property, but individuals from Hong Kong or Macau and Chinese citizens residing overseas are exempted from the one-year requirement.[132] Pursuant to supplementary regulations adopted in November 2010, foreigners are required to provide documents attesting to their residency status in China in order to qualify to purchase a home. These regulations also clarified that foreigners could purchase a maximum of one home and specified that foreign individuals and enterprises must guarantee in writing that the residential or commercial property acquired is for self-use.[133] The restrictions have been portrayed in the Chinese media as responses to the risk of foreign speculation,[134] but observers have expressed some scepticism at this justification, given the extremely low levels of foreign investment in the Chinese property market; an alternative view is that the government was "trying to distract attention away from…more fundamental issues" in the market.[135]

In the March 2015 revision of the *Catalogue for the Guidance of Foreign Investment Industries*, the Chinese government transferred real estate from the list of restricted foreign investment industries to the list of permitted industries.[136] As such, many restrictions have been lifted on foreign investment in land development, the construction and operation of high-end hotels and offices, and real estate brokerages.[137] Previously, ownership of commercial property by a foreign enterprise was limited to self-use purposes, in the city in which the branch of the foreign enterprise was registered. This reform is expected to lead to greater foreign participation in the Chinese real estate sector.

---

[132] Ministry of Commerce, People's Republic of China, "Opinions of the Ministry of Construction, the Ministry of Commerce, the National Development and Reform Commission, the People's Bank of China, the State Administration for Industry and Commerce, the State Administration of Foreign Exchange of the People's Republic of China, on Regulating the Market Access and Administration of Foreign Investment in Real Estate" [in Chinese], announcement, July 11, 2006, http://www.mofcom.gov.cn/aarticle/b/g/200608/20060802848409.html.

[133] Ministry of Housing and Urban-Rural Development, People's Republic of China, 关于口一步口范境外机构和个人口房管理的通知 [Further Regulating the Purchase of Property by Foreign Institutions and Individuals], announcement, November 4, 2010, http://www.mohurd.gov.cn/wjfb/201102/t20110218_202615.html.

[134] "Regulating, not restricting foreign investment on housing," *People's Daily*, July 28, 2006, http://en.people.cn/200607/28/eng20060728_287562.html; "China limits housing purchases by foreigners," *Xinhua*, November 15, 2010, http://europe.chinadaily.com.cn/europe/2010-11/15/content_11559306.htm.

[135] Hogan Lovells, "New Circular Re-imposes Restrictions on Purchases of Properties in China by Foreign Entities and Individuals – A Sense of Déjà Vu," *Lexology*, November 30, 2010, http://www.lexology.com/library/detail.aspx?g=85a3d4e3-8ee2-43ec-832d-0cc778145ac6; Esther Fung and Joy C. Shaw, "China Limits Property Purchases by Foreigners," *Wall Street Journal*, November 14, 2010, http://www.wsj.com/articles/SB10001424052748704584504575615942546998222/.

[136] National Development and Reform Commission and Ministry of Commerce, People's Republic of China, *Catalogue for the Guidance of Foreign Investment Industries (Amended in 2015)* (China: NDRC and MOFCOM, 2015).

[137] Ernst & Young, "Notice regarding the 'Foreign Investment Industrial Guidance Catalogue (Revised in 2015)' (NDRC/MOFCOM Order [2015] No. 22)," *China Tax and Investment Express*, March 20, 2015, http://www.ey.com/Publication/vwLUAssets/EY-CTIE-2015011-EN-G/$FILE/EY-CTIE-2015011-ENG.pdf.

Hong Kong

With substantial increases in housing prices and foreign investment over the past two decades, Hong Kong has long been a leading real estate market in Asia.[138] Its geographical proximity to the mainland makes it a major destination for Chinese capital, with an estimated US$3.84 billion in real estate investment from China between 2008 and June 2014.[139] The coincidence of this influx of foreign capital and a sharp rise in housing prices, estimated to have doubled since 2008, has led to the perception that foreign investors are partly responsible for the price appreciation.[140] Indeed, the city has repeatedly been cited as one of the least affordable metropolitan markets in the world.[141] These affordability challenges have prompted the Hong Kong government to adopt various taxation measures to manage foreign demand for real estate.

Foreign investors are permitted to acquire real property, as well as land through the purchase of a government lease. Foreign purchases of residential and non-residential property are subject to an *ad valorem* stamp duty (i.e. tax), with a rate that begins at 1.5% of the value of the property and increases at higher values. Foreign purchases of residential property may also be subject to an additional Special Stamp Duty (SSD) and Buyer's Stamp Duty (BSD). The SSD, which generally applies to both domestic and foreign acquirers, may apply at a rate between 10-20% of the property value if the residential property is sold within 36 months after the seller originally purchased it. The BSD applies to all purchases of residential property by non-permanent residents, including domestic and foreign companies, at a rate of 15% of the property value.[142]

Policy responses to rising housing prices and fears of excessive speculation have predominantly involved demand-side measures. In 2010, the Hong Kong government introduced the first of these measures in the form of the SSD. The explicit intention of this policy was to "curb speculation," on the basis of an observed surge in residential properties being resold within 24 months.[143] Later, in 2012, the government extended the coverage of the SSD to properties being resold within 36 months and increased its maximum rate to 20%, and introduced the BSD on all foreign purchases of residential property. One justification for the adoption of the SSD and BSD was the anticipated global investment flows to Hong Kong, following the rounds of the US Federal Reserve's "quantitative easing" program.[144] In 2013, the government doubled the rate for *ad valorem* stamp duty and applied it to non-residential transactions, in order to "address the overheating situation in the property market," along with the potential that it could spread to non-residential properties.[145]

---

[138] Chi-Chur Chao and Eden S. H. Yu, "Housing Markets with Foreign Buyers," *Journal of Real Estate Finance and Economics* 50, no. 2 (2015): 208.
[139] Cushman & Wakefield, *China's Outbound Boom*, 10.
[140] Josh Noble, "HK property prices continue to rise," *Financial Times*, November 3, 2014, http://www.ft.com/intl/cms/s/0/0ef-c1af2-6245-11e4-811b-00144feabdc0.html; Chao and Yu, 207.
[141] Demographia, 2.
[142] Government of Hong Kong, "Stamp Duty Rates," *GovHK*, last modified July 2014, http://www.gov.hk/en/residents/taxes/stamp/stamp_duty_rates.htm.
[143] Government of Hong Kong, "Special stamp duty to curb speculation in residential properties," press release, November 19, 2010, http://www.info.gov.hk/gia/general/201011/19/P201011190294.htm.
[144] Government of Hong Kong, "Further measures to address overheated property market," press release, October 26, 2012, http://www.info.gov.hk/gia/general/201210/26/P201210260697.htm; Yung.
[145] Government of Hong Kong, "New round of demand-side management measures," press release, February 22, 2013, http://www.info.gov.hk/gia/general/201302/22/P201302220636.htm; "Property plan to stay," *Government of Hong Kong*, May 13, 2014, http://www.news.gov.hk/en/record/html/2014/05/20140513_172817.shtml.

On the supply side, the government launched the "Hong Kong Property for Hong Kong People" initiative in 2012 to promote residential development exclusively for Hong Kong residents. Under the policy, implemented on a pilot basis, land for two sites at the Kai Tak Development Area was leased on the condition that the dwellings built would be restricted to domestic buyers for at least thirty years.[146] Partly due to perceptions that it was insufficient to address the shortage of affordable housing, the initiative was discontinued in 2014.[147]

The effectiveness of the demand-side measures at managing real estate demand and ameliorating the housing affordability problem has been debated. The stamp duties appear to be viewed favourably by the public, with a September 2013 poll showing that 74% of respondents supported such measures.[148] The government indicated a reduction in short-term speculative activity following the implementation of the SSD, and some observers have claimed that the higher transaction costs of acquiring real estate served to blunt price appreciation.[149] Nonetheless, even though the overall volume of real estate transactions fell after the SSD and BSD were adopted, housing prices continued to increase, suggesting that investors simply incorporated the stamp duties within the total cost of acquisition.[150] Foreign investors, specifically, may not be meaningfully deterred by the higher transaction costs. Given that investors from abroad are more likely to make purchases with cash, rather than accessing credit from local banks, the higher down-payment necessitated by the stamp duties would not necessarily constrain foreign demand for real estate.[151]

The putative role of speculative activity as a cause of housing price appreciation has also been questioned. An analysis of the Hong Kong real estate market suggests that between 2003 and 2008, extreme short-term trading (i.e. resales within six months) did not contribute to price increases.[152] The influence of speculation with a longer holding period, or during more recent years, remains a possibility, but whether foreign investors are more likely to engage in speculative activity than domestic investors is unclear.[153]

---

[146] Tony Cheung and Olga Wong, " 'Housing for Hongkongers' scheme may be wound down, says CY Leung," *South China Morning Post*, April 1, 2014, http://www.scmp.com/news/hong-kong/article/1462407/housing-hongkongers-scheme-may-be-wound-down-chief-executive-leung/.

[147] See Peggy Sito, "Flats for Hongkongers scheme a failure," *South China Morning Post*, April 7, 2014, http://www.scmp.com/property/hong-kong-china/article/1466880/flats-hongkongers-scheme-failure/.

[148] Tanna Chong, "Hongkongers want property curbs to continue or be strengthened, poll finds," *South China Morning Post*, October 3, 2013, http://www.scmp.com/news/hong-kong/article/1323027/hongkongers-want-property-curbs-continue-or-be-strengthened-poll/.

[149] Government of Hong Kong, "Transcript of remarks at press conference on demand-management measures of residential properties," press release, October 26, 2012, http://www.info.gov.hk/gia/general/201210/26/P201210260702.htm; Sandy Li, "Hong Kong's battle to curb property prices still on after initial success," *South China Morning Post*, February 21, 2014, http://www.scmp.com/property/hong-kong-china/article/1432253/hong-kongs-battle-curb-property-prices-still-after-initial/.

[150] Colliers International, *Cooling Measures in the Hong Kong Real Estate Market* (Hong Kong: Colliers International, 2013), 4.

[151] Chao and Yu, 208.

[152] Paavo Monkkonen, Kelvin Wong, and Jaclene Begley, "Economic restructuring, urban growth, and short-term trading: The spatial dynamics of the Hong Kong housing market, 1992–2008," *Regional Science and Urban Economics* 42, no. 3 (2012): 404.

[153] Ibid., 405.

Taiwan

Regulations on foreign investment in real estate in Taiwan are somewhat exceptional, due to its adoption of a "principle of reciprocity". Foreign individuals and enterprises are permitted to acquire real estate, with the exception of certain types of land, provided that Taiwanese individuals and enterprises have the same privilege the foreigners' home countries.[154] Besides this measure, real estate transactions may be subject to various taxes, including land taxes and a luxury tax on residential property.

In order to receive government approval to acquire real estate in Taiwan, foreigners must provide documents from the government of their home country certifying reciprocal treatment for Taiwanese individuals and entities. Some countries recognized by the Taiwanese government are exempted from this requirement. Canada is listed as a "fully reciprocal nation", permitting Canadian citizens to purchase real estate in Taiwan without such documentation.[155] In 2002, mainland Chinese individuals and entities were allowed to acquire real estate in Taiwan, but approval could be denied for national security purposes, national infrastructure projects, or activities deemed to be speculative.[156] Other special restrictions apply to mainland Chinese investors, including conditions on mortgages, residency, and reselling.[157] In 2013, the Taiwanese government announced that residential real estate purchases by mainland Chinese would be limited to an annual quota of 13 hectares and 400 units of buildings, with a long-term total quota of 1,300 hectares and 20,000 units.[158] Between 2002 and 2014, official sources show that only 160 properties were purchased by mainland Chinese, but it is not known how reliable this figure is, due to alleged circumventions of the regulations.[159]

Over the past decade, housing prices have tripled in Taipei, with official estimates indicating the average house price was approximately 15 times annual household incomes in 2013.[160] Government efforts to manage demand in the housing market followed public disquiet over these conditions. A luxury tax was adopted in 2011, at a rate of 10-15% on residential properties sold within two years that were not occupied by the owner.[161] In response to protests over foreign speculation, the government recently indicated it would pursue a consolidated housing and property tax of 17% on locals and 30% on foreigners, to be implemented in 2016. The finance ministry is reportedly considering whether to reduce the proposed tax for long-term property owners.[162]

---

154 "Guide to Foreign Investment in Real Estate in Taiwan, ROC," *Department of Land Administration, Ministry of the Interior*, http://www.land.moi.gov.tw/enhtml/fileclick.asp?onid=862.

155 "List Of Reciprocal Nations For Foreigners Acquiring Land In Taiwan, ROC," *Department of Land Administration, Ministry of the Interior*, http://www.land.moi.gov.tw/enhtml/fileclick.asp?onid=744.

156 Joseph Y. S. Cheng and Mo Shixiang, "The Entry of Mainland Chinese Investment into Taiwan: Considerations and Measures Adopted by the Taiwan Government," *China Information* 22, no. 1 (2008): 99.

157 Yi-Ling Chen, "The factors and implications of rising housing prices in Taiwan," *Brookings Institution*, July 2015, http://www.brookings.edu/about/centers/east-asia-policy-studies/research/taiwan-us-quarterly-analysis/.

158 "Taiwan sets limits on mainland Chinese real estate purchases," *Want China Times*, November 24, 2013, http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20131124000006&cid=1201.

159 Yimou Lee and Faith Hung, "Anger flares as mainland Chinese muscle in on Taiwan property," *Reuters*, August 12, 2014, http://www.reuters.com/article/2014/08/13/us-taiwan-property-china-idUSKBN0GD01E20140813/.

160 Kathryn Chiu, "Taipei housing market 'least affordable': report," *China Post*, April 17, 2014, http://www.chinapost.com.tw/taiwan-business/2014/04/17/405499/Taipei-housing.htm; Adela Lin, "Taiwan Approves 45% Property Gains Tax to Stamp Out Speculation," *Bloomberg*, June 5, 2015, http://www.bloomberg.com/news/articles/2015-06-05/taiwan-approves-45-property-gains-tax-to-stamp-out-speculation/.

161 Cindy Sui, "Taiwan passes 'luxury' tax to cool property market," *BBC News*, April 15, 2011, http://www.bbc.com/news/world-asia-pacific-13091236/.

162 Lin Shu-hui and Lu Hsueh-hui, "Tax rate for foreign property buyers in Taiwan set at 30%," *Want China Times*, February 12, 2015, http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150212000110&cid=1201.

NEW ZEALAND

In New Zealand, there are presently few restrictions on the acquisition of real estate by foreigners. Individuals and companies that are not New Zealand citizens, ordinarily resident in the country, nor the spouse or partner of someone who is exempt, require approval from the Overseas Investment Office prior to acquiring "sensitive land" or business assets over NZ$100 million. Land classified as sensitive includes non-urban land over 5 hectares, heritage land, and land adjoining public parks and reserves.[163] Otherwise, acquisitions of residential properties are not subject to any notification or approval requirements. Unlike other jurisdictions, New Zealand has no stamp duty or capital gains tax for properties sold after two years, an attractive selling point to overseas investors.[164]

Debate on foreign ownership of real estate recently intensified in New Zealand. Housing prices in Auckland have increased drastically in the past fifteen years. With the current average domestic property priced at over NZ$800,000, average prices are predicted to exceed NZ$1 million in the near future.[165] A widely discussed story in the *New Zealand Herald*, published in July 2015, reported claims by the New Zealand Labour Party that Chinese buyers had considerable influence in the housing market. Based on analysis of 4,000 residential transactions between February and April 2015 in Auckland, leaked from the real estate firm Barfoot & Thompson, the Labour Party claimed that almost 40% of the sample involved buyers who were "people of Chinese descent." This conclusion was derived by inferring ethnicity from buyers' names, using statistical methods.[166] The report also cited the divergence between census figures, which reported 9% of Auckland's population as New Zealand citizens or residents of Chinese ethnicity, and the comparatively high proportion of Chinese buyers in the sampled transactions, as being suggestive of overseas investor influence.[167]

Despite various methodological criticisms,[168] the report stimulated significant public discussion and calls for reform, including proposals to establish a "foreign buyer registry" and restrict foreign acquisitions of established residential property.[169] Previously, the government announced a number of measures intended to discourage property speculation, as part of its 2015 budget. Effective October 2015, non-residents will require a New Zealand bank account and IRD number[170] to acquire property, non-residents must provide their tax identification number from their home country, and capital gains tax will be applied on property sold within two years of purchase.[171]

---

[163] Overseas Investment Act 2005, Schedule 1 (New Zealand).
[164] Anne Gibson, "Colliers' Chinese ad for Auckland apartments talks up soft rules: 'NO stamp duties and property purchase tax, NO capital gains tax," *New Zealand Herald*, July 20, 2015, http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=11483627.
[165] Simon Day, "Auckland nears $1m average house price as experts warn of property bubble," *The Guardian*, May 25, 2015, http://www.theguardian.com/world/2015/may/25/auckland-nears-1m-average-house-price-as-experts-warn-of-property-bubble/.
[166] See Rob Salmond, "How Labour estimated ethnicity from surnames," *Polity* (blog), July 12, 2015, http://polity.co.nz/content/how-labour-estimated-ethnicity-surnames/.
[167] Anne Gibson, "Special investigation: Auckland house prices," *New Zealand Herald*, July 11, 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11478719.
[168] See Elle Hunt, "New Zealand Labour defends claim that foreign Chinese are buying up houses," *The Guardian*, July 13, 2015, http://www.theguardian.com/world/2015/jul/13/new-zealand-labour-defends-claim-that-foreign-chinese-are-buying-up-houses/.
[169] Peter Wilson and Sarah Robson, "NZ opposition parties demand NZ foreign buyer register," *Australian Financial Review*, July 15, 2015, http://www.afr.com/real-estate/residential/nz-opposition-parties-demand-nz-foreign-buyer-register-20150715-gicwkq/; Anne Gibson, "Auckland's property crisis: Foreigners should build, not buy - economist," *New Zealand Herald*, July 13, 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11480028.
[170] An IRD number is issued by the New Zealand Inland Revenue Department for tax and administrative purposes.
[171] Inland Revenue Department, "Budget 2015 – property compliance proposals announced," news release, May 17, 2015, http://taxpolicy.ird.govt.nz/news/2015-05-17-budget-2015-property-compliance-proposals-announced/.

Currently, there are no plans to establish a formal foreign property registry, and it is not clear whether aggregate figures from the tax identification information will be publicized.[172]

To some, the specific emphasis of much media and public discourse on Chinese investors is prejudicial, an accusation that others have rejected. New Zealand's Race Relations Commissioner has remarked that the report was "dumbing down complex economic woes" and that New Zealanders should not be "singled out because they have a Chinese sounding surname." Reacting to this claim, the Labour Party responded that the issue was about "non-resident foreign buyers," rather than about "being Chinese" and that contentious issues should be discussed.[173] Meanwhile, New Zealand Deputy Prime Minister Bill English stated that, during his July 2015 visit to Beijing, Chinese government officials expressed some concern over the "tone" of the ongoing debate. Mirroring this concern, other observers have noted some negative coverage in Chinese state media.[174]

Reflecting the strong public interest in the controversy, Prime Minister John Key indicated on July 21, 2015, that the government would consider enacting restrictions on foreign acquisitions of real estate if the issue continues to be of "great concern." Any decision to restrict foreign investment, he signalled, would be based on a consideration of the data to be collected by the government beginning in October 2015.[175]

[172] Anne Gibson, " 'We've got Chinese buyers'," *New Zealand Herald*, July 11, 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11478724.
[173] James Ellingham, Lincoln Tan, and Anne Gibson, "Andrew Little denies racism: 'The issue isn't about being Chinese. It's about non-resident foreign buyers'," *New Zealand Herald*, July 14, 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11480559.
[174] Christopher Adams and Isaac Davison, "China media backlash on Labour tactics on property buyers," *New Zealand Herald*, July 21, 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11484380.
[175] Claire Trevett, "PM open to foreign-buyer ban," *New Zealand Herald*, July 21, 2015, http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11484133.

SINGAPORE

Like Hong Kong, Singapore is a site of significant inward and outward flows of real estate investment. Despite a downturn in 2014 and 2015, the sector has historically experienced significant growth and represents an important part of the country's economy.[176] Singapore continues to rank among the top global real estate investment destinations,[177] and between 2008 and June 2014, the sector is estimated to have received US$3.23 billion in Chinese capital.[178] Rising housing costs have galvanized similar public concerns about foreign ownership of residential property, but such ownership is more restricted in Singapore than in Hong Kong. Depending on the prevailing economic conditions, the government has implemented policies to promote or discourage foreign investment, as a means of stabilising the property market.[179]

In Singapore, the residential property market is characterised by the conjunction of a large public sector, managed by the Housing and Development Board (constituting approximately 80% of the housing stock),[180] and a private housing market. The financial subsidies and other assistance provided through this arrangement have enabled 90% of the resident population to become property owners.[181] For foreign investors, Singapore is an

[176] Knight Frank, *Singapore Real Estate Highlights: June 2015* (London: Knight Frank, 2015), 4-7; Yongheng Deng, Daniel P. McMillen, and Tien Foo Sing, "Private residential price indices in Singapore: A matching approach," *Regional Science and Urban Economics* 42, no. 3 (2012): 486; Anne Haila, "Real Estate in Global Cities: Singapore and Hong Kong as Property States," *Urban Studies* 37, no. 12 (2000): 2248.
[177] PwC and the Urban Land Institute, *Emerging Trends in Real Estate: Asia Pacific 2015* (Washington: PwC and the Urban Land Institute, 2014), 36.
[178] Cushman & Wakefield, *China's Outbound Boom*, 10.
[179] Liao et al., 139.
[180] Department of Statistics Singapore, *Yearbook of Statistics Singapore: 2015* (Singapore: Department of Statistics, Ministry of Trade & Industry, Republic of Singapore, 2015), 46.
[181] Deng, McMillen, and Sing, 486; Sock-Yong Phang et al., "Housing Policies in Singapore: Evaluation of Recent Proposals and Recommendations for Reform," *Singapore Economic Review* 59, no. 3 (2014): 3.

attractive market due to its perceived stability,[182] and its proportion of foreign transactions in residential property appears to be higher than many other countries. Between 2004 and 2011, foreign buyers represented about 11% of private-housing sales; it has been argued that an increase in foreign liquidity inflows after 2004 contributed to a broad recovery in the housing market, which declined following the SARS outbreak.[183] Conversely, the past several years have seen policies to control the influx of foreign capital in the private housing market.[184]

Restrictions have existed on foreign ownership of residential real estate in Singapore since 1973. The *Residential Property Act* prohibits foreign individuals, permanent residents, and foreign companies from acquiring vacant land, houses, and buildings used for residential purposes in Singapore, with the exception of Sentosa Cove. However, foreigners are permitted to own commercial property and units in condominium and other residential buildings, unless the acquired units comprise all of a building's units.[185] Exemptions to these restrictions may be granted to individuals or companies that are permanent residents or deemed to be of "economic benefit to Singapore."[186] Consequently, foreigner ownership of residential property is generally limited to condominium units and flats. Those who contravene the regulations may be subject to a fine of S$5,000 and imprisonment for up to three years.[187]

An important general exception to these rules applies to Sentosa Cove, a residential enclave on the island of Sentosa. In 2004, the Singaporean government announced that residential property within the enclave would be open to foreign purchases in the form of a 99-year leasehold.[188] It is a luxury development and is specifically intended to target wealthy individuals, but foreign-owned property must be owner-occupied.[189] This policy is intended to encourage these individuals to reside in Singapore and invest in the local economy.

The Singaporean government has responded to overheating and slowed real estate markets in the past by easing and tightening regulations on foreign investment.[190] As property prices have increased, policy measures in recent years have aimed to reduce foreign demand. Irrespective of the nationality of the buyer, a Buyer's Stamp Duty of 1-3% of the property value applies to all purchases of residential and non-residential property. In December 2011, the government implemented an Additional Buyer's Stamp Duty (ABSD) of 10% on purchases of residential property by foreigners and 3% by permanent residents, later increased to 15% and 5% respectively in 2013. However, citizens of countries with tax agreements with Singapore, such as the United States, Switzerland, Lichtenstein, Norway, and Iceland are exempt from the ABSD, since such agreements require the countries to treat each other's investors as citizens for tax purposes.[191]

---

[182] Shibani Mahtani, "Singapore's Seaside Hideaway," *Wall Street Journal*, January 24, 2013, http://www.wsj.com/articles/SB10001424127887323374504578223204158614778/.
[183] Deng, McMillen, and Sing, 486.
[184] Liao et al., 139.
[185] Richard Ming Kirk Tan, "Restrictions on the foreign ownership of property: Indonesia and Singapore compared," *Journal of Property Investment & Finance* 22, no. 1 (2004): 106-107.
[186] Residential Property Act, Cap 274, 2009 Rev. Ed., s. 25 (Singapore).
[187] Tan, 107.

[188] Residential Property (Exemption — Sentosa Cove) Notification 2004 (Singapore).
[189] Graham Norwood, "Singapore swings to a new tune," *Telegraph*, June 12, 2004, http://www.telegraph.co.uk/finance/property/3325736/Singapore-swings-to-a-new-tune.html.
[190] Liao et al., 139.
[191] Martin Vaughan, "Singapore's Housing Tax Hits Home," *Wall Street Journal*, January 29, 2013, http://www.wsj.com/articles/SB10001424127887323375204578269940952611204/.

To deter speculation, a Seller's Stamp Duty applies to residential and commercial properties sold within a certain time frame. Residential properties sold within four years are subject to a duty of 4-16%, while industrial properties sold within three years are subject to a duty of 5-15%.

Since these measures were introduced, indications of a cooling real estate market have emerged. The ABSD may have contributed to the first drop in housing prices in three years, observed at the beginning of 2012.[192] Since 2011, the Seller's Stamp Duty has reportedly raised more than S$70 million, revealing a demonstrable impact on transactions.[193] Yet, some reports have primarily attributed the cooling market to mortgage restrictions imposed by the Singaporean government, which limited the debt prospective buyers could assume, rather than measures targeted exclusively at foreign investors.[194] Faced with the possibility of a sustained market decline, some commentators have now called for the cooling measures to be rescinded or moderated.[195]

[192] Liao et al., 141.
[193] Joyce Lim, "Home sellers stung by stamp duties," *Straits Times*, July 1, 2015, http://www.straitstimes.com/business/property/home-sellers-stung-by-stamp-duties/.
[194] Pooja Thakur Mahrotri, "Singapore Home Prices Fall for Fourth Straight Quarter on Curbs," *Bloomberg*, September 30, 2014, http://www.bloomberg.com/news/articles/2014-10-01/singapore-home-prices-fall-for-fourth-straight-quarter-on-curbs/; Alexandra Stevenson, "A High-End Property Collapse in Singapore," *New York Times*, February 17, 2015, http://www.nytimes.com/2015/02/18/realestate/a-high-end-property-collapse-in-singapore.html.
[195] See, for example, Cheryl Ong, "Cut stamp duty for second homes, make it easier for Singaporean investors," *Straits Times*, February 3, 2015, http://www.straitstimes.com/opinion/cut-stamp-duty-for-second-homes-make-it-easier-for-singaporean-investors/; Rennie Whang, "Time to review property cooling measures," *Straits Times*, July 4, 2015, http://www.straitstimes.com/business/property/time-to-review-property-cooling-measures/.

UNITED KINGDOM

According to one estimate, real estate investment activity in the United Kingdom reached a record £65 billion last year. With £27.5 billion of transactions alone, £17.5 billion of which originated from overseas, London was both the UK and the world's largest destination for cross-border real estate investment in 2014.[196] Foreign ownership of real estate is generally unrestricted, and the country is thought to provide favourable conditions for real estate investment, for several reasons. Among the factors responsible for these conditions are the transparent property market, political stability, the currency exchange rate, and the global reputation of London.[197] Meanwhile, however, increasing housing costs have fostered widespread perceptions of a "housing crisis". While London ranks in the top ten least affordable metropolitan markets, these increases have been observed throughout the UK, garnering intense political and media attention, most recently during the 2015 general election.[198] In this context, foreign investment and ownership of residential real estate has received much scrutiny.

As in Canada, foreign investors are permitted to acquire real estate without restriction in the United Kingdom. In England, Wales, and Northern Ireland, a Stamp Duty Land Tax (SDLT) applies to residential and non-residential property transactions irrespective of the nationality of the buyer or seller. For residential properties,

[196] Jon Neale, "UK real estate investment hit record £65 billion in 2014," *Jones Lang LaSalle website*, February 9, 2015, http://property.joneslanglasalle.co.uk/news/commercial-uk-real-estate-investment-volumes-hit-record-65billion-in-2014.aspx; Cushman & Wakefield, *International Investment Atlas 2015*, 6.
[197] Christine Whitehead and Tony Travers, *Creating the Conditions for Growth* (Cobham, UK: Berkeley Group, 2013), 27; Knight Frank, *International Residential Investment in London: International Project Marketing 2013* (London: Knight Frank, 2013), 3.
[198] Kate Allen and Jim Pickard, "Electing housing promises come under fire," *Financial Times*, April 27, 2015, http://www.ft.com/intl/cms/s/2/1cfe3920-ece0-11e4-a81a-00144feab7de.html; Demographia, 12; Office of National Statistics, "House Price Index, May 2015," *Statistical Bulletin*, July 14, 2015, http://www.ons.gov.uk/ons/dcp171778_410532.pdf.

the SDLT applies a tax rate of 2-12% of the property value applies to transactions valued above £125,000. For non-residential properties, a rate of 1-4% applies to transactions valued above £150,000. In Scotland, the Land and Buildings Transaction Tax applies instead, which operates in the same manner but with different tax rates. The SDLT was recently reformed in December 2014 to make it more efficient; a change in its rate structure resulted in decreased rates for transactions below £937,500, which constitute 98% of taxable transactions, and increased rates for transactions above this value.[199]

Another important change to the taxation regime was implemented in April 2015, when the capital gains tax (with a rate of 18-28%) was extended for the first time to cover sales of UK residential property by foreign investors.[200] Although June 2015 saw the largest decline in UK house prices in nine months,[201] it may be too early to determine whether these measures were responsible or have had the intended effect.

Stimulated partly by the forum provided by the May 2015 general election, a robust debate on the role of foreign investment in the real estate sector is underway in Britain. As mentioned, surveys suggest that a majority of the public and Members of Parliament believe there is a housing crisis in Britain, making this issue politically salient.[202] Notably, a paper by think-tank Civitas argued that residential property, especially in London, is increasingly viewed as "providing financial shelter rather than human shelter." It proposed the creation of a "non-resident housing investment agency" and the adoption of a foreign investment policy like that in Australia, which seeks to channel foreign capital toward new housing stock.[203] At the same time, other experts have warned against unfairly distinguishing foreign investment for criticism.[204] This investment, they argue, assisted in the recovery of housing development following the global financial crisis and "relieves rather than exacerbate the pressure on housing supply."[205] In this respect, there seems to be some agreement that real estate investment can be beneficial for the housing supply, but a divergence of views on the appropriate direction for housing and investment policies.

During a visit to Singapore in July 2015, Prime Minister David Cameron announced that the UK Land Registry would publish data on which foreign companies own land and property titles in England and Wales in the autumn of 2015. Made in a speech on addressing corruption, the pledge follows a Transparency International report released in March 2015, which claimed that £122 billion worth of property in England and Wales were owned by companies registered in offshore "secrecy jurisdictions" that disguise the identity and funds of investors.[206] The Prime

[199] HM Revenue and Customs, "Stamp duty land tax: reform of structure, rates and threshold," *Guidance Note*, December 12, 2014, 3, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389216/sdlt-guidance-note.pdf.
[200] Ruth Bloomfield, "U.K. Closes a Tax Gap for Foreign Owners," *Wall Street Journal*, February 12, 2015, http://www.wsj.com/articles/u-k-closes-a-tax-gap-for-foreign-owners-1423760946/.
[201] Elizabeth Paton, "UK house price growth at 2-year low of 3.3%," *Financial Times*, July 2, 2015, http://www.ft.com/intl/cms/s/0/50d94874-208a-11e5-ab0f-6bb9974f25d0.html.

[202] Ipsos MORI, "MPs and public sense 'housing crisis', but less so locally," *Ipsos MORI website*, January 30, 2015, https://www.ipsos-mori.com/researchpublications/researcharchive/3519/MPs-and-public-sense-housing-crisis-but-less-so-locally.aspx.
[203] David G. Green and Daniel Bentley, *Finding Shelter: Overseas investment in the UK housing market* (London: Civitas, 2014), 2, 8-9.
[204] Whitehead and Travers, 43; London School of Economics, "International investment in London housing market unfairly maligned says housing expert," news, September 17, 2014, http://www.lse.ac.uk/newsAndMedia/news/archives/2014/09/InternationalInvestmentInLondonHousingMarket.aspx.
[205] Whitehead and Travers, 22-24.

Minister emphasized that, while he strongly supported foreign investment, money laundering would not be tolerated in London or elsewhere in Britain.[207] However, some critics have expressed scepticism about the measure's effectiveness at identifying instances of money laundering. Complex ownership structures and other methods may potentially be used to obfuscate the actual ownership of these properties, even with the publication of the property ownership data.[208] Further consultations between the government and the industry on transparency measures, signalled in the speech, are anticipated.

UNITED STATES

The United States was the world's largest national real estate market in 2014, with an estimated US$390.6 billion in investment activity.[209] Similar to Canada and the United Kingdom, foreigners are not generally restricted from investing or owning real estate in the US. However, all foreign investments, including those in real estate, are potentially subject to national security review by the Committee on Foreign Investment in the United States. Though real estate is not a sensitive sector that would typically attract national security review, the location and proximity of foreign investments to sensitive infrastructure, government, or military facilities could raise national security issues.[210] Foreign individuals and entities that invest in real estate in the US are subject to various taxes, such as property tax and income and withholding taxes under the *Foreign Account Tax Compliance Act* and the *Foreign Investment in Real Property Tax Act*.[211]

Although detailed official statistics are not available, the National Association of Realtors (NAR) estimates that residential property sales to foreigners reached a record US$104 billion in the period between April 2014 and March 2015. International sales constituted approximately 4% of residential sales transactions and 8% by value.[212] Popular destinations for investors were Florida, California, Texas, and Arizona, which captured 50% of all foreign residential sales.[213]

---

[206] Transparency International UK, *Corruption on your doorstep: How corrupt capital is used to buy property in the UK* (London: Transparency International UK, 2015), 5, 16. According to the report, British Crown Dependencies and Overseas Territories are a "preferred option for concealment."
[207] Prime Minister's Office, "Tackling corruption: PM speech in Singapore," announcements, July 28, 2015, https://www.gov.uk/government/speeches/tackling-corruption-pm-speech-in-singapore/.
[208] Brian Milligan, "Cameron clean-up plan won't stop dirty money, say critics," *BBC News*, July 28, 2015, http://www.bbc.com/news/business-33690464/.

[209] Cushman & Wakefield, *International Investment Atlas 2015*, 6.
[210] U.S. Chamber of Commerce, *From International to Interstates: Assessing the Opportunity for Chinese Participation in U.S. Infrastructure* (Washington: U.S. Chamber of Commerce, 2013), 63-64.
[211] Richard M. Lipton and Patricia W. McDonald, "Foreign Investment in U.S. Real Estate: The FATCA/FIRPTA Dichotomy," *Journal of Taxation* 120, no. 5 (2014): 248. See also Mary Szto, "Representing Chinese Real Estate Investors in the United States," *Minnesota Journal of International Law* 23, no. 2 (2014): 205-207.
[212] National Association of Realtors, *2015 Profile of Home Buying Activity of International Clients* (Chicago: National Association of Realtors, 2015), 5-6.
[213] Ibid., 12.

Since 2008, Chinese investors have gradually emerged as a significant source of residential and commercial real estate investment in the US. According to the NAR, investment from China has now exceeded that from any other single country in the value and number of transactions, with US$28.6 billion in residential purchases in the twelve-month period ending March 2015. Previously, during the period between April 2012 and March 2013, China surpassed Canada as the top country of origin for US residential investment, by transaction value, for the first time.[214] Another estimate places China in third place (behind Canada and Norway) for commercial real estate investment in the US, with more than US$3.8 billion in capital flows in 2014, representing 9% of total foreign investment flows in this subsector.[215]

In the US, some controversy has arisen regarding the origins and legality of some foreign investments in luxury real estate, as well as investments made in relation to the country's immigrant investor visa program. Media reports on hidden or opaque investments in New York real estate, for instance, have raised the spectre of potential money laundering.[216] As in Vancouver, these suspect investments appear limited to a certain segment of the market, but nevertheless serve to generate some public trepidation about foreign investment overall.

According to a report prepared for the US-China Economic and Security Review Commission, a further concern is China's "extensive use of the EB-5 [immigrant investor] visa program" and possible deficiencies in the regulation of the program.[217] The program provides green cards to foreign investors that invest at least US$500,000 in a Targeted Employment Area (TEA, i.e. high unemployment area or rural area) or US$1 million in other areas; personal residential property does not qualify toward this threshold.[218] Investment in US commercial property is one channel for Chinese applicants, and in 2014, interest in the EB-5 program exceeded its annual quota of 10,000 visas for the first time. In that year, Chinese investors comprised 85% of EB-5 visas issued.[219] The report identified inadequate regulatory oversight of Immigrant Investor Regional Centres, privately-operated centres that provide assistance to prospective EB-5 applicants, as contributing to a risk of fraud against foreign investors. Another identified problem has been the tendency of applicants to "draw up artificially large TEAs" incorporating high-unemployment areas in order to qualify for the lower investment threshold, a practice that may undermine the program's goal of addressing unemployment.[220] Noting that Chinese applications are likely to increase in the future, changes to the EB-5 program have been suggested to address problems in its administration, the definition of TEAs, and fraud against prospective investors.[221]

[214] Ibid., 10.
[215] Jeanette I. Rice, *Canada is the Unrivaled Lead Foreign Investor in U.S. Real Estate* (Toronto: CBRE, Inc., 2015), 2.
[216] Andrew Rice, "Stash Pad," *New York Magazine*, June 29, 2014, http://nymag.com/news/features/foreigners-hiding-money-new-york-real-estate-2014-6/; Louise Story and Stephanie Saul, "Stream of Foreign Wealth Flows to Elite New York Real Estate," *New York Times*, February 7, 2015, http://www.nytimes.com/2015/02/08/nyregion/stream-of-foreign-wealth-flows-to-time-warner-condos.html.

[217] Iacob Kock-Weser and Garland Ditz, *Chinese Investment in the United States: Recent Trends in Real Estate, Industry, and Investment Promotion* (Washington: U.S.-China Economic and Security Review Commission, 2015), 4-5.
[218] Szto, 204.
[219] Kock-Weser and Ditz, 12.
[220] Ibid., 14.
[221] Ibid., 13-15, 25.

CONCLUSION

The globalization of real estate, with its attendant cross-border flows of investment capital, has intensified traditional policy challenges and introduced novel ones. While housing affordability has been a conventional problem in the past, one acknowledged to have a variety of causes, contentious questions have since developed about the positive and negative impacts of foreign real estate ownership in Canadian housing markets. As discussed, such questions are closely related to a paucity of relevant data on the subject. At the same time, the real estate controversy represents a focal point for public debate stemming from more general concerns about foreign investment and Canada's political and economic engagement with rising sources of global capital, such as China. The challenges associated with data collection, housing affordability, the origins of foreign capital, and the social implications of real estate attest to the complex nature of the controversy over foreign investment.

Given these complexities, there is an essential need for the provision of detailed data on foreign acquisitions of real estate, especially of residential property. At present, the indirect measures of foreign investment found in existing studies and analyses do not appear to satisfy the public's desire for accurate and reliable information on the subject. As a result, public perceptions may or may not accord with the actual conditions of the real estate market. These uncertainties have impeded productive debates about the appropriate response to foreign real estate investment. Due to the inconclusive nature of much of the existing data, it appears that some policy prescriptions may be premature, considering that little concrete evidence can be adduced on both the scope of, and the unfavourable impacts that may be traced directly to, foreign acquisitions of Canadian real estate. Therefore, the development of a formal data collection mechanism would be a key step to confronting the challenges of foreign investment.

Any effort to collect detailed information on foreign investment in Canadian real estate should consider the purposes that this information is intended to serve. Interest in this investment can focus on foreign ownership, capital, occupancy of residential property, or its effects on the supply of housing. Aside from this definitional point, it should be recognized that not all forms of foreign investment have the same consequences, whether beneficial or detrimental. More research is needed, for instance, to investigate the supposed link between foreign investment and vacancy rates or property speculation in Canadian housing markets, which is thought to be one factor affecting housing affordability. The collection and reporting of this data should be conducted by an official entity, in a non-discriminatory manner, in order to address concerns expressed about the impartiality and reliability of existing analyses of foreign investment in real estate. The potential administrative burdens for authorities and investors should be considered, though this initiative would likely serve to reduce the uncertainty and distrust characterising much of the present controversy.

Ideally, any prospective policy response should be developed with an informed, evidence-based understanding of the causes and impacts of foreign investment in real estate. As a further contribution to this discussion, this paper has outlined the experience of other countries in managing foreign participation in the real estate market. The rationales and implementation of the regulatory approaches adopted abroad can be instructive, as governments in Canada deliberate on the possible actions that might be taken. Global investment in real estate, including from China, will continue to be a prominent phenomenon in the coming years. Efforts to address its influence, actual and perceived, on Canadian real estate markets will require careful consideration of the interrelated issues and challenges involved in order to untangle its complexities.

ACKNOWLEDGEMENTS

I would like to thank the reviewers, Ron MacIntosh, Margaret McCuaig-Johnston, Brian Evans, Jennifer Hsu, Ashley Esarey, and Gordon Houlden, for their valuable time and comments, as well as Qian Tang for translation assistance and Vivian Mak for design and formatting. I am also grateful to Kai Valdez Bettcher, Erin Asselin, and J. J. H. Yoon for helpful suggestions and comments. Any errors and faults are solely my own and not those of the reviewers.

BIBLIOGRAPHY

Arcand, Alan, Robin Wiebe, Jane McIntyre, and Constantinos Bougas. *Metropolitan Outlook 1: Economic Insights Into 13 Canadian Metropolitan Economies*. Ottawa: Conference Board of Canada, 2015.

Asia Pacific Foundation of Canada. *2015 National Opinion Poll: Canadian Views on Asian Investment*. Vancouver: Asia Pacific Foundation of Canada, 2015.

Australian Government, Foreign Investment Review Board. *Annual Report 2013-14*. Canberra: Commonwealth of Australia, 2015.

Bardhan, Ashok, and Cynthia A. Kroll. "Globalization and Real Estate: Issues, Implications, Opportunities." *Fisher Center Research Reports*, Spring 2007: 1-20.

Baxter, David, Andrew Ramlo, and Ryan Berlin. "Much Ado About Nothing: What the data say, and don't say, about foreign & temporary residents and unoccupied dwellings." n.d. Urban Futures Institute. http://www.urbanfutures.com/foreign-unoccupied/.

British Columbia Real Estate Association. *Market Implications of Foreign Buyers*. Vancouver: British Columbia Real Estate Association, 2015.

Canada Mortgage and Housing Corporation. *Rental Market Report - Canada Highlights - Date Released - Fall 2014*. Ottawa: Canada Mortgage and Housing Corporation, 2014.

Chao, Chi-Chur, and Eden S. H. Yu. "Housing Markets with Foreign Buyers." *Journal of Real Estate Finance and Economics* 50, no. 2 (2015): 207-218.

Cheng, Joseph Y. S., and Mo Shixiang. "The Entry of Mainland Chinese Investment into Taiwan: Considerations and Measures Adopted by the Taiwan Government." *China Information* 22, no. 1 (2008): 91-118.

Colliers International. *Cooling Measures in the Hong Kong Real Estate Market*. Hong Kong: Colliers International, 2013.

Cushman & Wakefield. *China's Outbound Boom: The Rise of Chinese Investment in Global Real Estate*. London: Cushman & Wakefield, 2014.

—. *International Investment Atlas 2015*. London: Cushman & Wakefield, 2015.

Demographia. *11th Annual Demographia International Housing Affordability Survey: 2015*. Belleville, IL: Demographia, 2015.

Deng, Yongheng, Daniel P. McMillen, and Tien Foo Sing. "Private residential price indices in Singapore: A matching approach." *Regional Science and Urban Economics* 42, no. 3 (2012): 485-494.

Department of Statistics Singapore. *Yearbook of Statistics Singapore: 2015*. Singapore: Department of Statistics, Ministry of Trade & Industry, Republic of Singapore, 2015.

Ernst & Young. *Outlook for China's outward foreign direct investment 2015*. China: Ernst & Young, 2015.

Gauder, Maurice, Claire Houssard, and David Orsmond. "Foreign Investment in Residential Real Estate." *Reserve Bank of Australia Bulletin* June Quarter 2014, 11-18.

Gholipour, Hassan Fereidouni, Usama Al-mulali, and Abdul Hakim Mohammed. "Foreign investments in real estate, economic growth and property prices: evidence from OECD countries." *Journal of Economic Policy Reform* 17, no. 1 (2014): 33-45.

Green, David G., and Daniel Bentley. *Finding Shelter: Overseas investment in the UK housing market*. London: Civitas, 2014.

Haila, Anne. "Real Estate in Global Cities: Singapore and Hong Kong as Property States." *Urban Studies* 37, no. 12 (2000): 2241-2256.

Ho, Lok Sang, Yue Ma, and Donald R. Haurin. "Domino Effects Within a Housing Market: The Transmission of House Price Changes Across Quality Tiers." *Journal of Real Estate Finance and Economics* 37, no. 4 (2008): 299-316.

Holly, Sean, M. Hashem Pesaran, and Takashi Yamagata. "The spatial and temporal diffusion of house prices in the UK." *Journal of Urban Economics* 69, no. 1 (2011): 2-23.

Knight Frank. *Chinese Outward Real Estate Investment: After the Initial Waves, What's Next?* London: Knight Frank, 2015.

—. *Chinese Outward Real Estate Investment Globally and into Australia: Australian Market Insight May 2015*. London: Knight Frank, 2015.

—. *International Residential Investment in London: International Project Marketing 2013*. London: Knight Frank, 2013.

—. *Singapore Real Estate Highlights: June 2015*. London: Knight Frank, 2015.

Kock-Weser, Iacob, and Garland Ditz. *Chinese Investment in the United States: Recent Trends in Real Estate, Industry, and Investment Promotion*. Washington: U.S.-China Economic and Security Review Commission, 2015.

KPMG Australia, and University of Sydney China Studies Centre. *Demystifying Chinese Investment in Australia: May 2015 Update*. Sydney: KPMG Australia and the University of Sydney China Studies Centre, 2015.

Landcor Data Corporation. *British Columbia Q1 2011: Residential Sales Summary*. New Westminster: Landcor Data Corporation, 2011.

Ley, David. "Between Europe and Asia: The Case of the Missing Sequoias." *Ecumene* 2, no. 2 (1995): 185-210.

Ley, David, and Judith Tutchener. "Immigration, Globalisation and House Prices in Canada's Gateway Cities." *Housing Studies* 16, no. 2 (2001): 199-223.

Liao, Wen-Chi, Daxuan Zhao, Li Ping Lim, and Grace Khei Mie Wong. "Foreign liquidity to real estate market: Ripple effect and housing price dynamics." *Urban Studies* 52, no. 1 (2015): 138-158.

Lipton, Richard M., and Patricia W. McDonald. "Foreign Investment in U.S. Real Estate: The FATCA/FIRPTA Dichotomy." *Journal of Taxation* 120, no. 5 (2014): 248-262.

Ma, Guonan, and Robert N. McCauley. "Do China's capital controls still bind? Implications for monetary autonomy and capital liberalization." *BIS Working Papers*, no. 233 (2007): 1-29.

Monkkonen, Paavo, Kelvin Wong, and Jaclene Begley. "Economic restructuring, urban growth, and short-term trading: The spatial dynamics of the Hong Kong housing market, 1992–2008." *Regional Science and Urban Economics* 42, no. 3 (2012): 396-406.

National Association of Realtors. *2015 Profile of Home Buying Activity of International Clients*. Chicago: National Association of Realtors, 2015.

National Development and Reform Commission, and Ministry of Commerce, People's Republic of China. *Catalogue for the Guidance of Foreign Investment Industries (Amended in 2015)*. China: NDRC and MOFCOM, 2015.

Parliament of the Commonwealth of Australia. *Report on Foreign Investment in Residential Real Estate*. Canberra: Commonwealth of Australia, 2014.

Phung, Sock-Yong, David Lee, Alan Cheong, Kok-Fai Phoon, and Karol Wee. "Housing Policies in Singapore: Evaluation of Recent Proposals and Recommendations for Reform." *Singapore Economic Review* 59, no. 3 (2014): 1-14.

PwC and the Urban Land Institute. *Emerging Trends in Real Estate: Asia Pacific 2015*. Washington: PwC and the Urban Land Institute, 2014.

—. *Emerging Trends in Real Estate: Canada and the United States 2015*. Washington: PwC and the Urban Land Institute, 2014.

—. *Emerging Trends in Real Estate: The global outlook for 2015*. London: PwC and the Urban Land Institute, 2015.

Ramlo, Andrew, and Ryan Berlin. "Averages & Anecdotes Part II: Deciphering Trends in Real Estate Prices." n.d. Urban Futures Institute. http://www.urbanfutures.com/foreign-buyers/.

Rice, Jeanette I. *Canada is the Unrivaled Lead Foreign Investor in U.S. Real Estate*. Toronto: CBRE, Inc., 2015.

Rogers, Dallas, Chyi Lin Lee, and Ding Yan. "The Politics of Foreign Investment in Australian Housing: Chinese Investors, Translocal Sales Agents and Local Resistance." *Housing Studies* 2015, 1-19.

Schneider, Stephen. "Organized crime, money laundering, and the real estate market in Canada." *Journal of Property Research* 21, no. 2 (2004): 99-118.

Szto, Mary. "Representing Chinese Real Estate Investors in the United States." *Minnesota Journal of International Law* 23, no. 2 (2014): 173-211.

Tal, Benjamin, and Andrew Grantham. "The Many Faces of the Canadian Housing Market." *CIBC Economic Insights* June 25, 2015, 8-11.

Tan, Richard Ming Kirk. "Restrictions on the foreign ownership of property: Indonesia and Singapore compared." *Journal of Property Investment & Finance* 22, no. 1 (2004): 101-111.

Transparency International UK. *Corruption on your doorstep: How corrupt capital is used to buy property in the UK*. London: Transparency International UK, 2015.

Treasurer of the Commonwealth of Australia. *Australia's Foreign Investment Policy*. Canberra: Commonwealth of Australia, 2015.

U.S. Chamber of Commerce. *From International to Interstates: Assessing the Opportunity for Chinese Participation in U.S. Infrastructure*. Washington: U.S. Chamber of Commerce, 2013.

Vancouver City Savings Credit Union. *Help wanted: salaries, affordability and the exodus of labour from Metro Vancouver*. Vancouver: Vancouver City Savings Credit Union, 2015.

Vancouver Mayor's Task Force on Housing Affordability. *Academic Working Group – Foreign Investment Report*. Vancouver: Mayor's Task Force on Housing Affordability, 2012.

Whitehead, Christine, and Tony Travers. *Creating the Conditions for Growth*. Cobham, UK: Berkeley Group, 2013.

Wright, Craig, and Robert Hogue. *Housing Trends and Affordability: June 2015*. N.p.: RBC Economics, 2015.

Yan, Andrew. "Measuring the Presence of Absence: Clarifications and Corrections in the Reportage of the BTAworks' Foreign Investment in Vancouver Real Estate." *Bing Thom Architects* (blog). March 25, 2013. http://www.btaworks.com/2013/03/25/measuring-the-presence-of-absence-clarifications-and-corrections-in-the-reportage-of-the-btaworks-foreign-investment-in-vancouver-real-estate/.

—. *Ownership, Occupancy, and Rentals: An Indicative Sample Study of Condominiums in Downtown Vancouver*. Vancouver: Bing Thom Architects, 2009.

Zhao, Linda Shuo. "Chinese Underground Banks and Their Connections With Crime: A Review and an Appraisal." *International Criminal Justice Review* 22, no. 1 (2012): 5-23.

CHINA INSTITUTE | UNIVERSITY OF ALBERTA

china.ualberta.ca