Averages & Anecdotes: Deciphering Trends in Real Estate Prices Part II: Foreign Investment

Mark Carney, the governor of the Bank of Canada, recently addressed the Vancouver Board of Trade on his outlook for the Canadian housing market, warning that "some excesses may exist in certain areas and market segments"[1]. Relative to the experiences of many other countries—where significant downturns in residential real estate have been seen since 2008—the pace of price increases in certain markets throughout Canada, namely Toronto and Vancouver, certainly represent an anomaly.

The most recent Multiple Listing Service (MLS) sales data from the Canadian Real Estate Association shows that average house prices in Canada increased by 8.6 percent between May 2009 and May 2010. That said, much of this increase was driven by sales activity in specific neighbourhoods in Vancouver and Toronto. For example, excluding Vancouver sales reduced the increase in average house prices to 5.6 percent, while excluding both Vancouver *and* Toronto further reduced price increases to 3.7 percent.

As we noted in our previous paper on trends in real estate prices (which can be found here), in reviewing residential price increases in the Lower Mainland over the past year we found that excluding the most expensive properties from the analysis dramatically changed the landscape of price increases. Much as Vancouver and Toronto appear to be skewing the national picture, a number of sales in certain market areas in the Lower Mainland are skewing the local picture. As an example, while the average sales price for a detached home in the region had grown to $810,398 by 2010, excluding the top 20 percent of all sales from the analysis (those that sold between $965,000 and $17.5 million) resulted in an average sales price for the remainder of the detached market of $591,000.

The intent of the paper was to show how the arithmetic mean (or average) can be significantly influenced by outliers within the data being considered and, as a result, is not the best indicator of changes in real estate markets. Needless to say, significant outliers existed in both the detached and condo/apartment sides of the market throughout 2009 and 2010. While some people interpreted the analysis as an attempt to downplay recent price increases, others more rightfully considered it in the context of refining current discussions about housing markets, moving them beyond simple averages and anecdotes. This is also the intent of the analysis that follows.

In his address to the Board of Trade, Mr. Carney identified some of the challenges that may lie ahead for Canadian real estate markets; moreover, he commented that, in Vancouver – "as in other globalized real estate markets like Sydney and Hong Kong—Asian wealth is pouring in as foreign investors diversify and look to invest in hard assets, thereby contributing to residential real estate valuations that are, in some cases, extreme"[2].

While recent discussions of the drivers to housing market prices in the Lower Mainland increasingly seem to be focused on the role played by these foreign investors, little data have been presented to back up this claim. Fortunately, Landcor Data Corporation was able to provide Urban Futures with data on recent sales in the Lower Mainland. These data facilitated an empirical approach to addressing the role of foreign investment in the Lower Mainland's residential real estate market.

[1] Torobin, Jeremy and David Ebner. "Carney Warns on Housing Markets." *The Globe and Mail*. Wednesday, June 15, 2011 (http://www.theglobeandmail.com/report-on-business/economy/housing/condo-market-could-overshoot-in-some-cities-mark-carney-warns/article2062166/)
[2] *ibid*

The approach used to identify the extent of foreign investment relied on consideration of the addresses to which properties' assessment notices were mailed. In this context, a property assessment notice mailed to an address that is not the legal address of the property being assessed would be considered an investment property; furthermore, the address (or location) to which that assessment notice was mailed allows the origin of the investor to be identified. Thus, an assessment notice mailed to an address elsewhere in the Lower Mainland would be considered a local investor, while a notice mailed outside of the country would represent a property purchased (or owned) by investors outside of Canada. Properties in this latter category can be flagged in the sales database as being purchased (or owned) by foreign investors.

The data from Landcor (which include all MLS sales as well as non-MLS sales such as pre-sales or 'for sale by owner' transactions) indicate that there were 55,512 residential property sales in the Lower Mainland region in 2010. Of these, 40 percent were detached units, 39 percent were condo/apartments, 18 percent were attached units, and the remaining three percent included other residential properties and vacant residential land. Overall, sales in 2010 were 13 percent below the level seen in 2009 (63,586 sales), with the most significant decline in volumes seen in the condo/apartment segment of the market, which fell by 24 percent.

With respect to the impact of foreign investors in the Lower Mainland market in 2010, of the 55,512 sales in 2010, a total of 195 residential properties were purchased by people outside of Canada (or had the assessment notice mailed outside of Canada). Thus, foreign investors accounted for 0.4 percent of all sales in the region in 2010. Foreign investors played a slightly more prominent role in the condo/apartment segment of the market: 159 condo/apartments were purchased by foreign investors, accounting for 0.7 percent of all condo/apartment sales in 2010. While representing a small share of sales for both structure types, it is interesting to note that condo/apartments accounted for 82 percent of all sales to foreign investors in 2010 (but again these sales to foreign investors represented under one percent of all condo/apartment sales).

The data for 2009 tell a similar story: sales to foreign investors represented 0.6 percent of all sales (360 of 63,226), and were concentrated in the condo/apartment segment of the market. The 299 condo/apartments purchased by foreign investors represented 1.1 percent of all condo/apartment sales in 2009, and 83 percent of all sales to foreign investors. It is also worth noting that foreign investors currently own a mere 0.5 percent of the total stock of 774,600 residential properties in the Lower Mainland.

These data contradict what seems to be largely anecdotal evidence indicating foreign investment is a significant driver to residential price increases in the Lower Mainland. Although the anecdotes are rarely backed up by publicly available data, they have become the subject of much public attention. Interestingly, when asked about what data exist on the extent of foreign investment, Mr. Carney responded that "the Central Bank has access to all data on insured mortgages across the country"[3]. Unfortunately, while this may be true, these data are not readily publicly available.

In conclusion, publicly available data do not support the anecdote that foreign investors are driving residential price increases in the Lower Mainland: overall they accounted for 0.4 percent of all residential sales in the region in 2010. Although there is a clear distinction between average sales prices for foreign investors and domestic purchasers, as we have shown, these averages do not tell the whole story. If additional data are available—from details on insured mortgages to other sources of information that indicate foreign investors could be having a significant impact on housing prices in the Lower Mainland (or other housing markets within Canada)—let's make them publicly available so that we can move current discussions beyond anecdotes and averages.

[3] *ibid*