

March 2023

Law of Attraction: Assessing the Impact of Rising Immigration and the Ban on Foreign Buyers

Summary of Findings

- Two significant federal government policies – the ban on foreign buyers and record-high immigration targets – will shape housing demand in BC over the next three years.
- The demand impact of the increase in immigration is approximately five times as large as the Foreign Buyers Ban and is estimated to place significant upward pressure on home prices.
- To fully offset a deterioration in affordability, new home completions would need to increase 25 per cent above their historical average level and sustain this record-high pace of construction for five years.

Introduction

In 2023, the federal government implemented two policies related to non-residents that will impact the BC housing market. The first is included in Bill C-19, the *Prohibition on the Purchase of Residential Property by Non-Canadians Act*, which implements a two-year ban on home sales to non-Canadian buyers (also known as the Foreign Buyers Ban).

Secondly, Canada has increased its national immigration targets over the next three years, intending to take in nearly 1.5 million new permanent residents to alleviate significant shortages in Canadian labour markets. This level of immigration will put additional pressure on a housing market already facing a lack of supply, leading to increased competition for available housing and upward pressure on prices.

While the Foreign Buyers Ban will offset some of that demand, the number of foreign buyers turned away is much less significant than the housing demand generated by increased immigration targets. The new permanent residents the government aims to welcome into the country by 2025 will be exempt from the Foreign Buyers Ban, since the ban does not apply to permanent residents.

What will the ultimate effect of these two policies be on the BC housing market? In this Market Intelligence, we look to answer that question using our new Real Estate Policy Analysis Model (REPAM).

Background on New Federal Policies

Prohibition on the Purchase of Residential Property by Non-Canadians Act

The *Prohibition on the Purchase of Residential Property by Non-Canadians Act*, also known as the Foreign Buyer Ban, came into law on January 1, 2023 and forbids those who are neither citizens nor permanent residents from purchasing residential real estate in Canada for two years. The Act makes exceptions under specific conditions for international students, temporary workers, refugees, spouses of Canadian residents, and others.¹ Property outside of a Census Metropolitan Area or Census Agglomeration, as defined by Statistics Canada², is also not subject to the ban.

Individuals found guilty of contravening the ban are subject to fines of up to \$10,000, and if the property is sold, they cannot receive more than the purchase price. The penalty also applies to any individual or entity that “counsels, induces, aids, or abets” a non-Canadian in purchasing residential property in Canada during this period.

The imposition of the ban was motivated by the substantial run-up in residential home prices, which occurred from the spring of 2020 until January 2022. The notion was that foreign buyers contributed to the rise in home prices and that by prohibiting these buyers, the increase in home prices could be controlled. Finance Minister Chrystia Freeland stated, “we will prevent foreign investors from parking their money in Canada by buying up homes. We will make sure that houses are being used as homes for Canadian families rather than as a speculative financial asset class.” Despite these arguments, existing programs, such as BC’s Foreign Buyer Tax, find that a small number of transactions involve purely foreign buyers (in the territory of 1 per cent). Given this, there is weak evidence that the Foreign Buyers Ban will achieve its objective of lowering home prices.

Raising Immigration Targets

In November, the Canadian government announced it would substantially increase the number of immigrants gaining permanent residency over the next three years. After welcoming over 406,000 new permanent residents in 2021 and 437,000 in 2022, the government aims to accept half a million new permanent residents by 2025. This is a considerable increase over the level that prevailed before the COVID-19 pandemic, with about 341,000 new permanent residents in 2019.

The motivation for the increase is Canada’s extremely tight labour market, with an unemployment rate close to the lowest level since the 1970s and roughly one million vacant jobs as of Q3 2022.

¹ [Ensuring housing market remains available to Canadians | CMHC \(cmhc-schl.gc.ca\)](https://www.cmhc-schl.gc.ca/en/ensuring-housing-market-remains-available-to-canadians)

² [Geography - Find information by region or area \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/92-629-x/2020001/article/00001-eng.htm)

Given this, the government also plans to adjust the makeup of new immigrants, with a larger proportion of new residents coming through the economic (rather than family reunification or refugee) category.

The number of economic-class permanent residents, who typically have in-demand skills, experience, and education, is planned to increase by 6.4 per cent per year in 2025, while family reunification permanent residents will increase by 5.3 per cent per year in 2025. In contrast, the number of refugees and humanitarian-class permanent residents will decrease by 6.5 per cent per year.³

The new targets reinforce Canada's policy of aggressively attracting and admitting what Canada considers to be economically beneficial immigrants. According to Statistics Canada, 23 per cent of Canadians were born abroad, the highest proportion in the country's history and the highest of any G7 country. By 2041, the agency predicts this figure will rise to 34 per cent.

Estimating the Housing Demand Impact

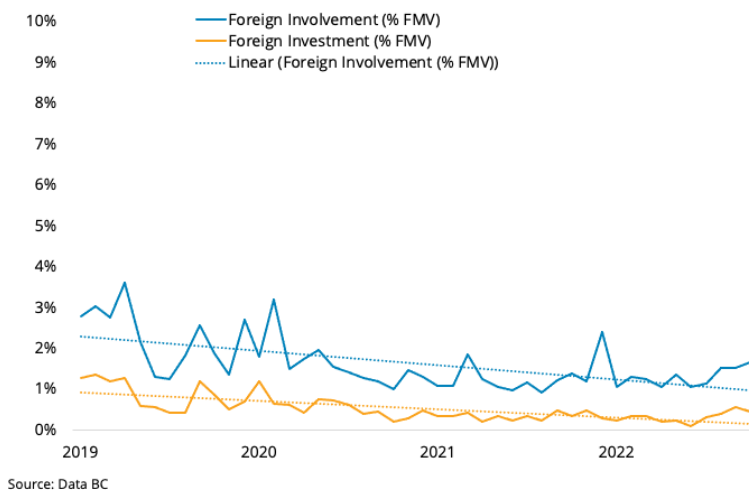
To approximate how these new policies will impact the BC housing market, we first need to understand the relative magnitudes of sales to foreign buyers compared with purchases by new immigrant households.

Sales Impact of Foreign Buyers Ban

The provincial government has collected data on the scale of foreign purchases in BC through the Additional Property Transfer Tax, which has been levied on foreign investors since 2016. As a result, there is reliable data available on the number of transactions involving the types of buyers that Bill C-19 aims to regulate.

The share of non-resident buyers has steadily fallen since the implementation of the Foreign Buyer Tax, and since the onset of the COVID-19 pandemic, the tax has been applied on an average of 0.4 per cent of residential sales volume.

Foreign Investment In BC



³ [Notice – Supplementary Information for the 2023-2025 Immigration Levels Plan - Canada.ca](#)

The number of units purchased exclusively by foreign investors is not reported, as the foreign buyer tax can be imposed on a portion of the market value owned by a non-resident involved in a multi-party transaction. In our analysis, we assume that foregone unit sales to foreign investors would equal 100 sales per month or 2,400 sales over the two-year ban. This is slightly lower than the number of units sales with some foreign involvement but quite a bit higher than what we roughly estimate as purchases by sole non-residents. Given the range of exemptions to the ban available to non-resident purchasers, this estimate is likely an overestimate.

Sales impact of New Immigration Targets

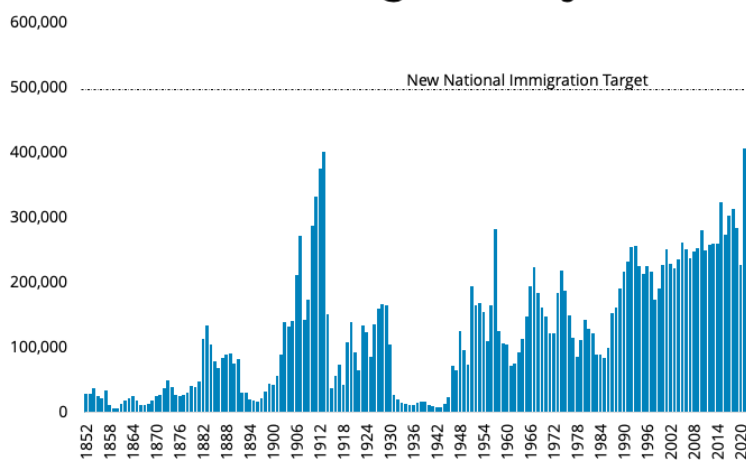
When looked at through a long historical lens, the increase in immigration slated for the next three years is dramatic. However, while these targets represent record levels of immigration to Canada, they are much lower as a share of the Canadian population than at times of previous record immigration totals observed in the early 1900s.

To estimate the market impact of increased immigration targets, we need to understand what the increased national target means for immigration to BC, how many new households will be formed, and the propensity of new immigrant families to purchase residential property.

Historically, BC receives about 15 per cent of total Canadian immigration, which equates to an average of 39,000 new immigrants to BC each year. Applying that historical share to the new immigration target, BC will welcome 217,500 new permanent residents from 2023-2025, or 100,500 more new permanent residents than would be expected based on historical average immigration levels. A large unknown, and essential question for the analysis of housing demand is

how many of these new residents are already in the country awaiting approval of their permanent resident status and how many are new arrivals. According to Immigration, Refugees and Citizenship Canada (IRCC), it is common for about 40 per cent of new permanent residents to already be in place in Canada prior to receiving their Permanent Residence status.⁴

Immigration to Canada About to Increase Significantly



Source: Statistics Canada

⁴Benjamin Tal, "Housing demand from newcomers even stronger than perceived," CIBC Economics In Focus, January 25, 2023 <https://economics.cibccm.com/cds?id=216b7b77-c610-47de-aecc-7ef636d0e5cf&flag=E>

These new permanent residents are already in the country and should not count as new housing demand. Therefore, in our estimates, we assume 60 per cent of estimated immigration flows represent new arrivals to BC.

Since some of those 217,500 new immigrants will be part of a family, estimating the impact on the demand for housing will depend on the approximate number of new households that will be formed. Data from the 2021 Canadian Housing Survey shows that the household size of immigrant families typically ranges from 2.5 to 3.4 members.

For our analysis, we have used the mid-point of this range and assumed a household size of three. With that assumption, the increase in immigration will translate to approximately 20,500 new BC households over and above average annual immigration.

Consequently, that means a 20,500-unit increase in demand for either ownership or rental housing just from permanent residents. Non-permanent residents, excluded from this analysis, could be several times that magnitude.⁶

Given the challenging affordability of many cities in BC, only a portion of the new households formed as a result of increased immigration will become homeowners. For our analysis, we again rely on the 2021 Canadian Housing Survey, which shows that recent immigrants to BC had an approximately 54 percent homeownership rate.⁷ Applying that share to our household estimate, we arrive at a static impact of new immigration targets of about 11,000 additional home sales, close to five times the impact of the Foreign Buyers Ban.

The potential impact of the increase in immigration is much more significant than the decline in sales due to the prohibition on foreign buyers. To see how these overlapping policies will potentially interact and how they will impact sales and prices in the resale market, given the market and economic factors prevailing over the analysis period, we look to our policy analysis model, REPAM.

Model Analysis

BCREA's REPAM is a small quarterly econometric model which enables BCREA to analyze the effects of hypothetical scenarios on the British Columbian real estate market. The model incorporates housing and macroeconomic data, including housing starts, completions, prices, price expectations, MLS® home sales, MLS® active listings, new MLS® listings, average household incomes, the average mortgage rate, and migration. The model also includes an estimation of additional unobservable variables such as the number of potential buyers and the percentage of sales made by investors.

⁶ Benjamin Tal, "Housing demand from newcomers even stronger than perceived," CIBC Economics In Focus, January 25, 2023 <https://economics.cibccm.com/cds?id=216b7b77-c610-47de-aecc-7ef636d0e5cf&flag=E>

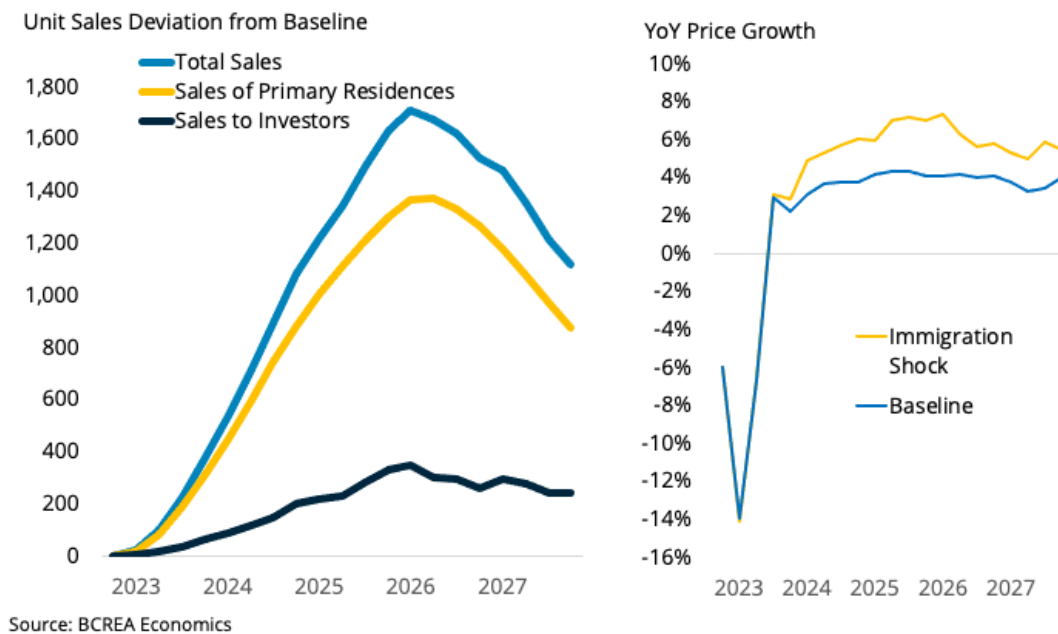
⁷ Canadian Household Survey 2021

The relationships between these variables are estimated and combined into a model that can assess how shocks to different variables affect the housing market.

For example, immigration shocks in REPAM are calibrated to match the census and housing survey data as described in the previous section. Rather than providing a static estimate, we can simulate how the effect of the migration shock promulgates over time and how it impacts other parts of the housing market. A shock to immigration in REPAM translates to a peak impact on sales after about three years. The impact of a stand-alone shock to immigration over the next five years is displayed below. Simulating the effect on home sales and prices reveals a boost to home sales over a five-year horizon, accelerating a recovery in home prices by more than 200 basis points above a baseline of no change to policy.

An essential feature of REPAM is that it includes two types of buyers – first, those looking for a principal residence whose demand is driven by fundamentals like migration, income growth, and affordability; and second, investors who are interest rate sensitive but whose demand is also driven largely by price expectations. The latter characteristic acts as an accelerant during tight market conditions and rising prices, resulting in a higher share of investor buying⁸.

Estimated Impact of Increased Immigration Target on Home Sales and Prices



⁸ The investor share of sales in REPAM was calibrated to match the average investor share reported by the Bank of Canada in Mikael Khan and Yang Xu, "Housing Demand in Canada: A novel approach to classifying mortgagedhomebuyers," Bank of Canada Staff Analytical Note 2022-1 <https://www.bankofcanada.ca/2022/01/staff-analytical-note-2022-1/>

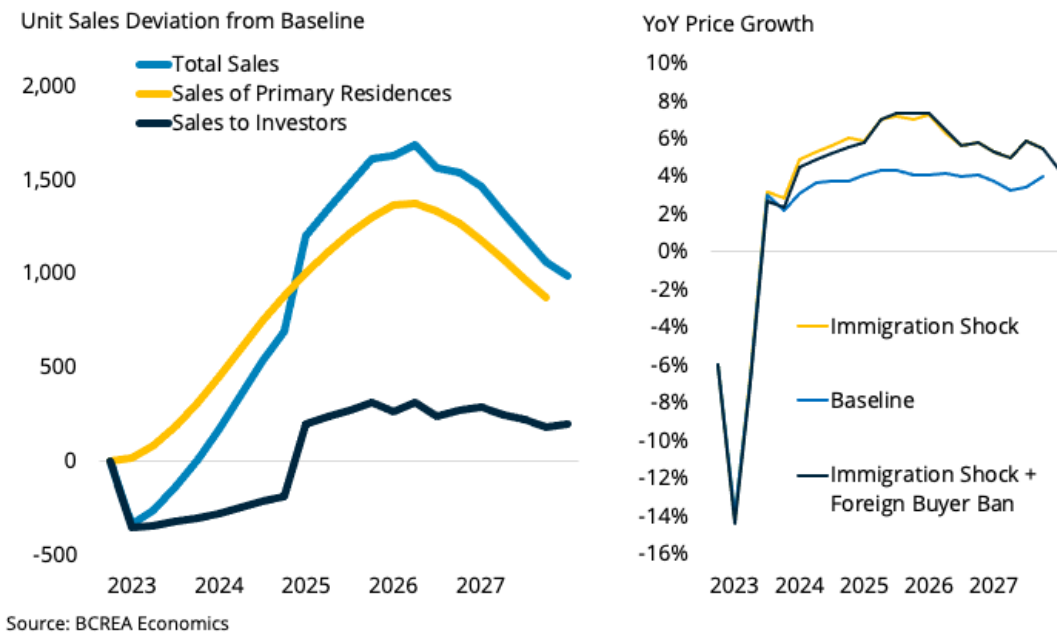
As a result, REPAM predicts that by causing a tightening in market conditions and raising price expectations, the shock to immigration also increases the share of both domestic and foreign investors. To account for the Foreign Buyers Ban in our analysis, we treat foreign buyers as part of the investor block of the model and reduce sales to investors by 300 sales per quarter. Note that this assumes domestic investors do not make up the lost sales to non-resident investors.

As a result of the Foreign Buyers Ban, there is a slight reduction of the total sales impact due to higher immigration and a slight amelioration of the consequent upward pressure on home prices. However, price growth does catch up as the lagged impact of the immigration shock hits following the two-year Foreign Buyers Ban period.

To ease the pressure on the housing market that arises from sudden changes in housing demand, governments can take steps to increase housing supply. This can include zoning changes to allow for more housing construction, increasing funding for affordable housing programs, and providing incentives for developers to build more housing units.

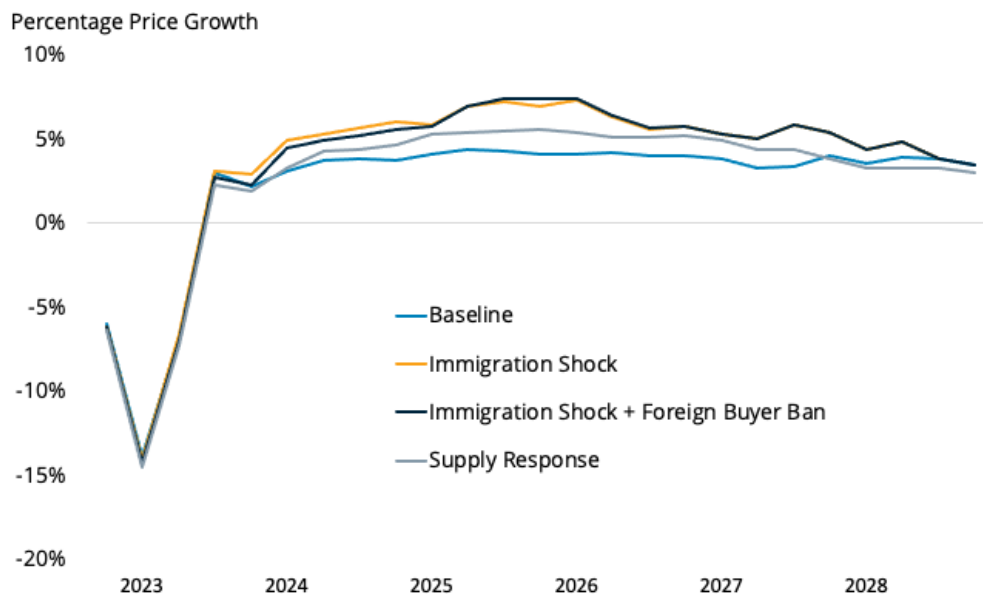
Because REPAM includes a supply side that intertwines the new construction and resale market, we can simulate a variety of supply-side policy improvements to gauge the impact of these demand-side policies under an enhanced supply-side response.

Estimated Impact of Increased Immigration Target on Home Sales and Prices



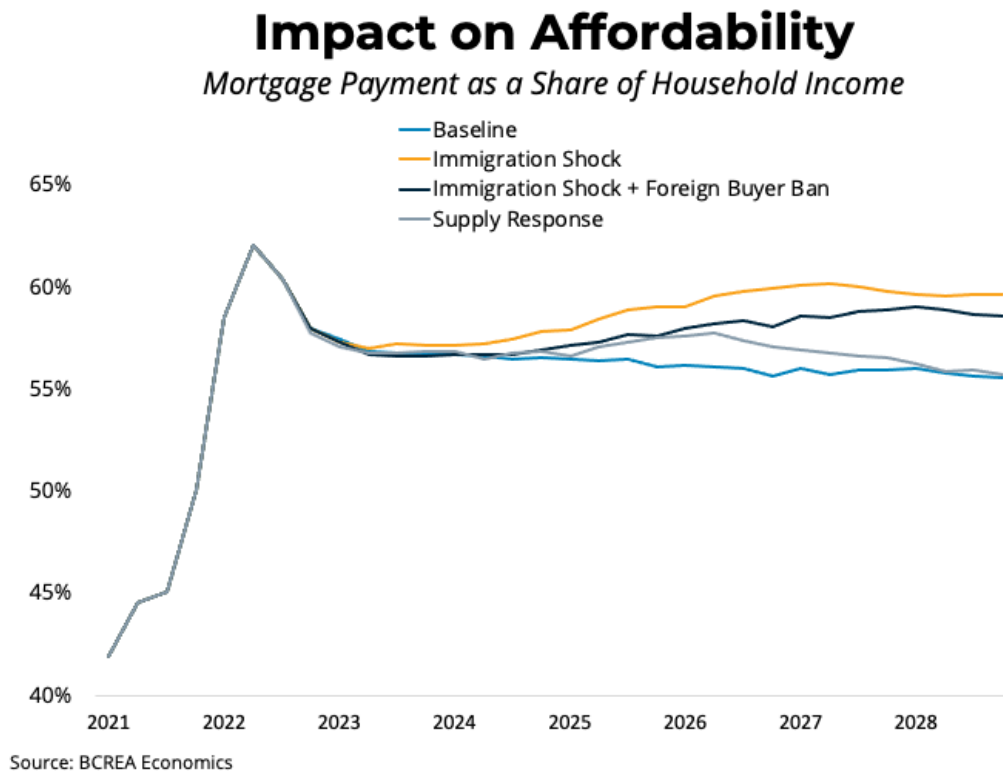
In a simulation that considers the effects of supply-side policy enhancements leading to a sustained increase in completions, the increase in home prices due to the demand shock is eventually offset as the ownership market is providing with an increased level of listings. This helps maintain price growth close to its long-term baseline, and towards the end of the simulation horizon, price growth falls below the historical baseline as the demand shock subsides and the flow of new housing remains robust. In the model simulation, to fully offset the increase in immigration, new home construction in BC needs to ramp up by 25 per cent over the model baseline for the next five years to a record level of about 43,000 completions per year. While this pace of completions is close to that achieved from 2020 and 2021, higher interest rates and weaker market conditions make that rate of completion less likely over our projection horizon. Moreover, an unfortunate unintended consequence of the ban on foreign buyers is that financing new home construction is even more difficult without access to international capital markets. Indeed, there are already reports of up to 500 new rental units in Vancouver being cancelled due to the ban.⁹

Enhanced Supply Response Required to Offset Demand Shock



Source: BCREA Economics

Lowering price growth so that income growth can catch up to prices is integral to improving housing affordability in BC. In our simulations, an appropriate supply response can offset the impact on affordability from a demand shock and on a longer time horizon, also help to make progress in permanently improving affordability compared to the model baseline.



Conclusion

Immigration plays a vital role in the economy by supporting economic growth, creating job opportunities, and bringing diversity to communities. However, as detailed in this report, it also adds significantly to housing demand. As the population continues to grow and global migration patterns persist, it is essential to understand and embrace the positive impacts of immigrants in the broader economy while also planning for the impact on housing. The challenge lies in creating policies and programs that support and welcome immigrants while addressing the consequent pressures on an already stressed housing market.

Instead of policies designed to limit demand through taxation or prohibition, governments should pursue an abundance agenda for housing. An agenda that includes more housing, less obstacles to building more housing, and a streamlined process to get more housing to the market faster. Without such an agenda, it will only be a matter of time before the market is again facing accelerated price growth and deteriorating affordability as demand soars and supply struggles to keep pace.