



Will Ontario Pass its Own Foreign Buyers' Tax?

Description

The province of British Columbia shocked the finance world back in August when it announced it would be passing a 15% foreign buyers' tax on any real estate transactions in the Vancouver area.

The reaction to this new tax was both swift and predictable. Realtors, mortgage brokers, and other people who benefit from heavy real estate activity decried the new regulation, calling it short-sighted, too aggressive, and racist, noting all of the benefits of Canada's free economy. Targeting foreigners may make Canada an unappealing place to invest in the future, which may have unintended long-term consequences.

Most people, however, were in favour of the law. Thousands of city residents are frustrated with home prices that kept stretching further and further out of reach. These folks feel they have a right to purchase affordable housing.

Although we only have a couple of months' worth of sales data, it sure looks like the new tax has done exactly what was intended. Sales fell almost 33% in September versus 2015, although prices still continued to climb. Many analysts think it's only a matter of time until the sales numbers translate into lower prices.

Is Toronto next?

Now that it's looking like this new tax will have the intended consequence, rumours are flying that Toronto will soon pass its own foreign buyers' tax.

Vancouver's foreign buyer population has been dominated by rich Chinese investors. According to recent estimates, there are approximately 1.3 million millionaires in China with most attempting to get at least some of their fortunes out of the country. So they buy real estate in places with stable governments who want foreign money. Vancouver's already high Asian population helped to make it an ideal spot.

Toronto is less appealing for a few different reasons. There are fewer non-stop flights. Toronto's immigrant population is more skewed towards Europe and the Middle East. And Toronto gets much

colder in the winter.

Foreign buyers are still having a big effect on the market. Thousands of condos are currently sitting vacant; it's obvious when you look at certain buildings at night. And although Toronto real estate isn't quite as expensive as Vancouver's, there are still thousands of potential buyers who would love to enter the market but just can't afford it—especially after the new mortgage rules come into effect.

Ontario could also use the money. Heck, every government could use the money; but Ontario's finances are especially bad.

How will this impact your portfolio?

The obvious loser if such a tax is passed is **Home Capital Group Inc.** ([TSX:HCG](#)), Canada's largest subprime lender.

More than 80% of the company's portfolio is tied up in homes in the Greater Toronto Area, despite attempts to diversify. It's obvious Home Capital has much to lose in such a scenario.

Home Capital isn't just dealing with a potential foreign buyers' tax. It's also in the cross-hairs of many prominent short sellers, who dislike everything from the company's underwriting standards to its relationship with several mortgage brokers.

Another company that will be affected by such a move is Canada's largest privately owned mortgage default insurer, **Genworth MI Canada Inc.** (TSX:MIC). It hasn't been a good few weeks for Genworth, after the company predicted a sharp decrease in the number of new customers in wake of the new tougher mortgage qualification standards. This sent shares reeling some 15%.

Approximately 47% of Genworth's insured mortgage portfolio is in Ontario. Since most of Ontario's population lives in the Greater Toronto Area, it doesn't take much analysis to realize Genworth has a lot of exposure to Canada's largest metro. Anything that could send prices reeling isn't exactly good news.

The bottom line

Toronto's real estate market is just like the Energizer bunny—it just won't quit. If the latest changes to mortgage qualification standards don't dampen the market, a foreign buyers' tax could be the next step. Both investors and homeowners should prepare now, before it's too late.

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TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

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Date

2025/08/25

Date Created

2016/10/17

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