

'Hot' Chinese money triggers alarm bells; Open debate on real estate effect needed: ex-ambassador

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Canadian cities need to have an open debate about the risks and benefits of Chinese money - including "hot" funds brought in by corrupt officials - in Canada's housing market, according to a former senior Harper government official.

The recommendation comes from David Mulroney, Canada's ambassador to China from 2009-12 and a former senior foreign policy adviser to Prime Minister Stephen Harper.

In his new book *Middle Power, Middle Kingdom*, which critically analyzes Canada's relationship with China, Mulroney devotes a chapter to the impact of China's emerging class of super-wealthy individuals who are buying up real estate, especially in Toronto and Vancouver.

And he floats some potentially controversial solutions to deal with the downside of foreign money, including a special tax on non-residents and a requirement that foreigners be allowed to invest only in newly constructed housing.

Mulroney challenges the notion advanced by some, especially in the real estate industry, who play down the role of foreign money in Canadian real estate prices.

"It's hard to argue that investment from China isn't having at least some impact on real estate markets in our biggest cities," he writes.

"This fact should encourage us to have a discussion, either nationally or in our largest cities, about how we get the balance right between providing high-quality affordable housing and encouraging the economic boost that comes from a lively and open real estate market."

However, Mulroney also said the debate should be guided by factual information and not anecdotal evidence and "urban myths."

Part of the discussion, according to Mulroney, needs to look at ways to close the door to corrupt former government officials who use ill-gotten millions to buy housing in Canada.

He notes that Canada and the U.S. have been targeted by Operation Fox Hunt, a 2014 initiative that involves dispatching teams of officials to foreign countries to track down ex-bureaucrats.

"The U.S. and Canada are key targets for its investigators. Both places are popular with corrupt officials because both are highly desirable locations in which to house family members and educate children, and neither has an extradition treaty with China," writes Mulroney, who said Canadian authorities could go "much further" in co-operating with China in its crackdown.

Mulroney cites the research and arguments of University of B.C. geographer David Ley and UBC-affiliated urban planner Andy Yan, who works with Bing Thom Architects.

Yan has studied power usage in Vancouver neighbourhoods to pinpoint absentee rates in areas believed to be targeted by Chinese investors, such as Coal Harbour.

Yan "also makes it clear that it matters little whether the absentee owners are 'from Calgary or Shanghai.' The important thing is that someone, somewhere consider the negative impact of absenteeism on the vibrancy of a neighbourhood, avoiding the emergence of what Yan calls a 'zombie city,' " Mulroney writes. "Addressing this fully in cities such as Vancouver and Toronto requires much more civic (and civil) debate than we have seen to date. Ideally, it should be based on fact rather than anecdote - something that argues for collecting data that can help us better understand what's really happening in the market."

He suggested Canada look at jurisdictions like Australia, where foreign investors are barred from buying existing housing to encourage a growth in the housing supply.

Canada could also follow the lead of other jurisdictions that have looked at or implemented a special tax on non-resident owners.

"If we levied such a tax in Vancouver and Toronto, for example, its proceeds could be used to support the construction of affordable housing in the downtown sections of both cities."

Mulroney praises Ottawa's decision to both overhaul and pare down the Investor Immigrant program, which essentially lets rich foreigners buy visas with a modest investment.

He cites Ley's book *Millionaire Migrants*, which raised questions about whether wealthy foreign investors do much to boost local economies.

"But it would have been useful to set it in the context of a more fundamental and more inclusive discussion about what it is to be a resident, a neighbour and a citizen," he writes.

"That kind of honesty is a prerequisite for developing policies designed to ensure that our cities remain welcoming, affordable, prosperous and livable. Being open to discussing this doesn't in any way imperil our commitment to building a diverse and tolerant society. But it depends on having more facts than we do now."

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