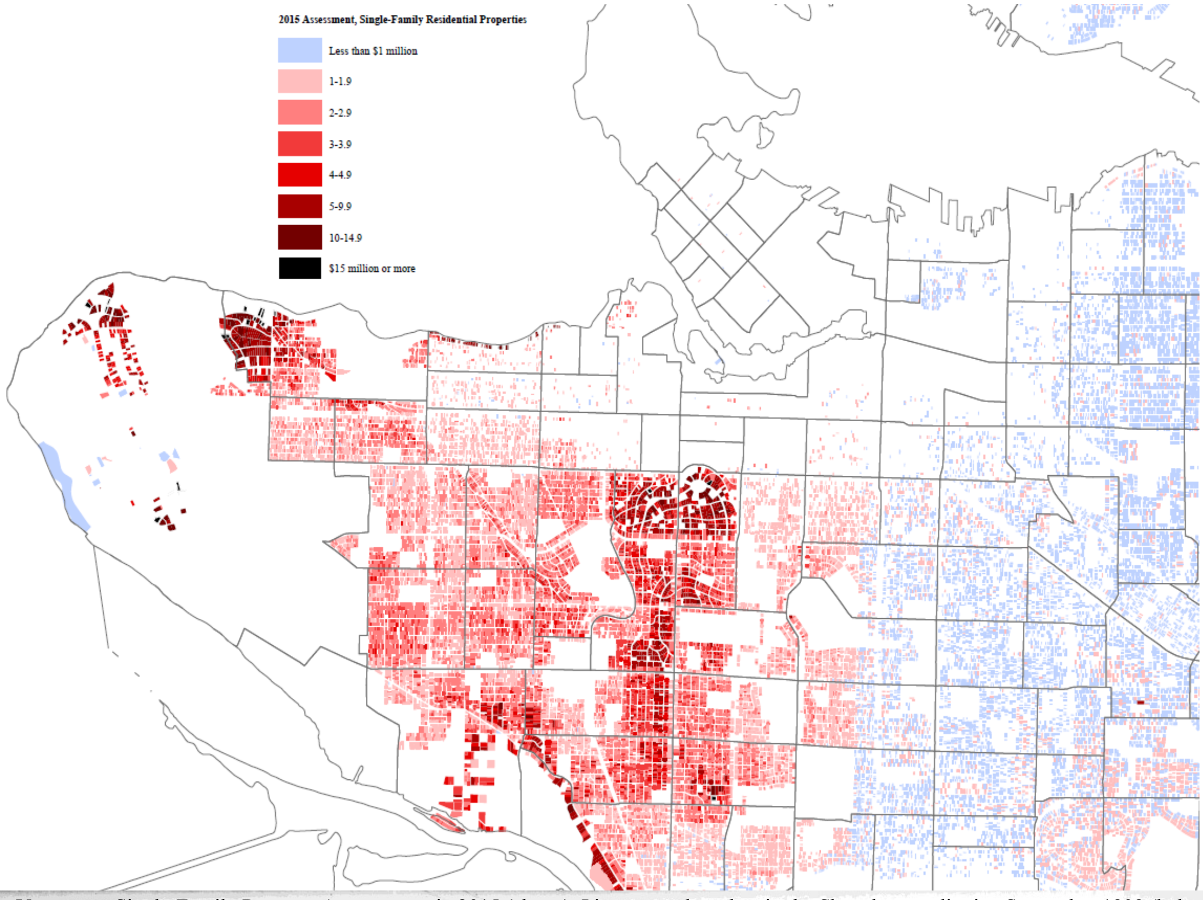
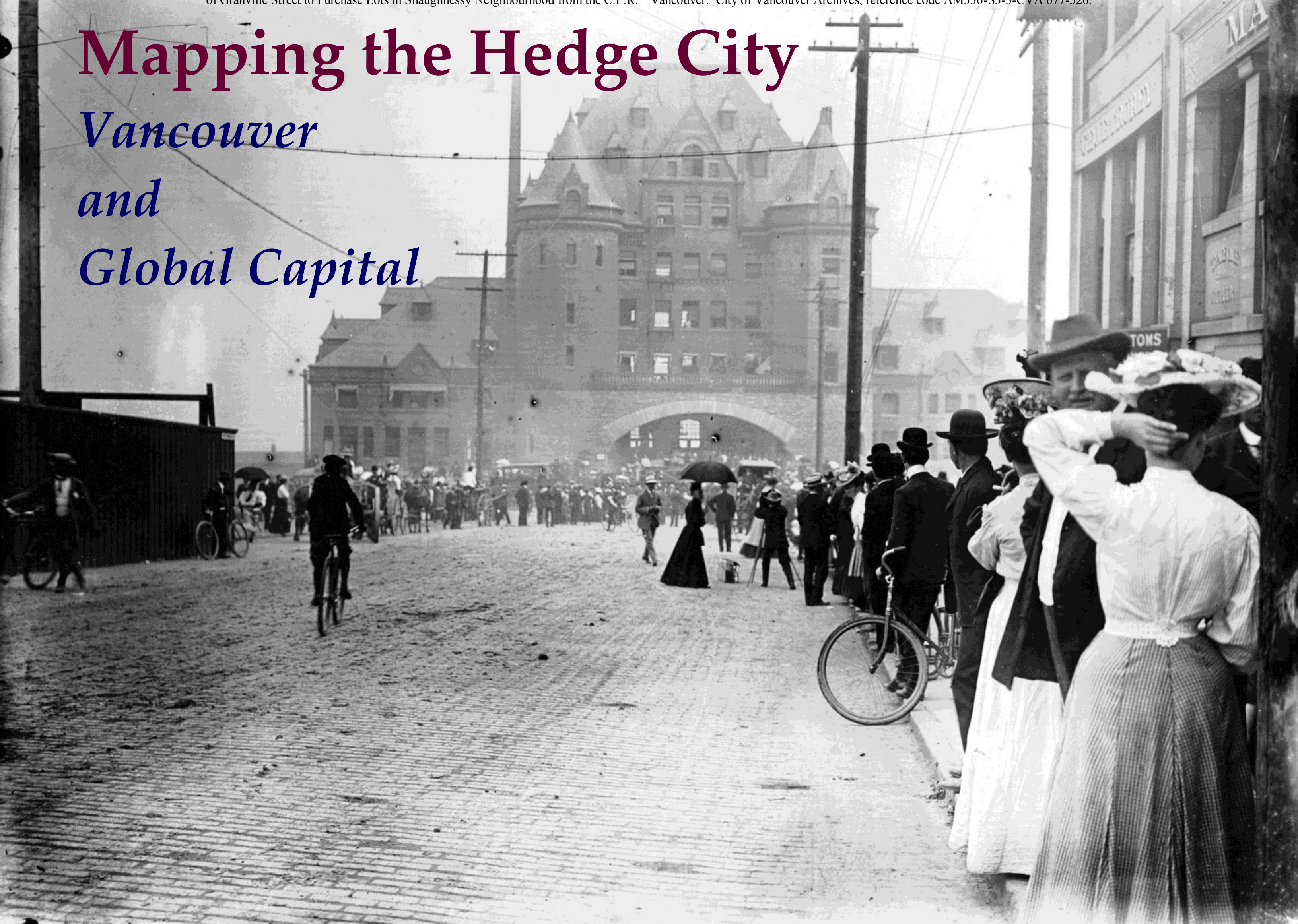


Vancouver Single-Family Property Assessments in 2015 (above), Line to purchase lots in the Shaughnessy district, September 1909 (below).
Sources: British Columbia Assessment, *2015 Property Tax Roll*, with geospatial corrections and adjustments by Andy Yan, Bing Thom Architects; Philip T. Timms (2009). "Line-up at the Foot of Granville Street to Purchase Lots in Shaughnessy Neighbourhood from the C.P.R." Vancouver: City of Vancouver Archives, reference code AM336-S3-3-CVA 677-526.

Mapping the Hedge City

Vancouver and Global Capital



MAPPING THE HEDGE CITY: VANCOUVER AND GLOBAL CAPITAL

A Proposal for the
First Annual Larry Bell Urban Forum
Connecting Urban Theory and Public Policy
Vancouver, September 2016

"There are few subjects that exercise Vancouverites more than property value fluctuations and the attendant windfall profits or losses, and this is the topic of almost every conversation sooner or later. Real estate is Vancouver's true passion, its real blood sport. Vancouver is a culture of speculation."

—Lance Berelowitz,
Dream City: Vancouver and the Global Imagination[1]

"How can we draw in investments without rendering the city inhospitable for people who have lived here for a long time and want to continue to live here and raise their families here?"

—Prime Minister Justin Trudeau in Vancouver, June 2016[2]

"Clearly it's a political hotspot and people are outraged about what's going on ... No one likes to see 24-year-old realtors driving Lamborghinis."

—Tsur Somerville,
Director, UBC Centre for Urban Economics and Real Estate, June 2016[3]

From its establishment as a speculative maneuver on the route of the transcontinental railway at the far end of a planetary colonial empire, Vancouver has always been integrated with transnational flows of people, ideas, and investment. Nineteenth-century British colonial linkages and twentieth-century North American influences have now evolved into a wider panorama in the emergence of a cosmopolitan capitalist "East Asian-centered world market society,"[4] making the linkages between local real estate markets and global capital ever stronger and faster. By most measures, the region's house-price-to-income ratio has been the highest in North America for more than a decade, and is now the third highest in the world behind Hong Kong and Sydney.[5] But if real estate looks unaffordable when seen from the local headlines — "40% of Vancouverites Feel Priced Out of Town," "Millennials Flee High Cost of Vancouver Housing," "Anger, Fear Draws Hundreds of Residents to Housing Forum"[6] — the view is very

[1] Lance Berelowitz (2005). *Dream City: Vancouver and the Global Imagination*. Vancouver: Douglas & McIntyre, p. 95.
[2] Quoted in Peter O'Neil and Cassidy Olivier (2016). "No Easy Answers to Housing Issue: PM." *Vancouver Sun*, June 18, A4.
[3] Quoted in Rob Shaw (2016). "Liberal, NDP Solutions Set Up Housing Battle." *Vancouver Sun*, June 30, A6.
[4] Giovanni Arrighi (2007). *Adam Smith in Beijing: Lineages of the Twenty-First Century*. London: Verso, p. 7.
[5] Demographia, Inc. (2016). *12th Annual Demographia International Housing Affordability Survey: 2016.* Belleville, IL: Wendell Cox Consultancy.
[6] Matthew Robinson (2015). "40% of Vancouverites Feel Priced Out of Town: The Metro Vancouver Experience, Four Different Realities." *Vancouver Sun*, June 18, A1; Katia Dmitrieva (2016). "Millennials Flee High Cost of

different from the perspective of global capital investment. Speaking at the Credit Suisse Global Megatrends Conference in Singapore in April, 2015, Laurence Fink, the CEO of BlackRock, the world's largest asset-management firm, described the two assets that are now replacing the centuries-long obsession with gold as a safe hedge against the dangers of war or inflation. "The two greatest stores of wealth internationally today," Fink advised, are

> "contemporary art ... and I don't mean that as a joke, I mean that as a serious asset class. ... And two, the other store of wealth today is apartments in Manhattan, apartments in Vancouver, in London. ... It's become much more accessible for global families worldwide to store wealth outside their country ... And they don't have to own gold."[7]

Fink was describing the essence of the "hedge city," a concept developed several years ago by the Vancouver urban planner Andy Yan to describe the attraction of urban real estate markets as safe bets to insure against an uncertain future: "There are now rich people around the world who are looking for places where they can park some of their cash and feel safe about it."[8] Yan's concept — which emphasizes the attractiveness of all types of property, not just condos — distills the findings from his years of research on Vancouver home prices, as well as thirty years' worth of research by UBC Geography Professor David Ley and other prominent scholars documenting the uniquely transnational nature of the region's property market as a locally urbanized interface between Canada and the dynamic, explosive capitalist transformation of the Asia-Pacific.[9] Illustrated with detailed, parcel-level maps of dramatically escalating property assessments, Yan's hedge city concept has catalyzed extensive local discussion, as well as coverage by the BBC, *The New Yorker,* and the *Harvard International Review*,[10] but Larry Fink's position atop the world's hedge-fund hierarchy commanded special attention as his words echoed around the planet. Fink's quote was immediately showcased in advertisements for the latest condo development in Vancouver, and in a *Financial Post* headline: "Forget Gold, buy a Vancouver condo if you want to stash your wealth, says world's top money manager."[11] It was

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Vancouver Housing: Talented Young Workers Happy in New Homes in Victoria, Kelowna." *Vancouver Sun*, March 15, C1; Nick Eagland (2016). "Anger, Fear Draws Hundreds of Residents to Housing Forum." *Vancouver Sun*, March 17, 2016, A2.

[7] Quoted in Jonathan Burgos and Netty Ismail (2015). "New York Apartments, Art Top Gold as Stores of Wealth, Says Fink." *Bloomberg*, April 20.

[8] Quoted in James Surowiecki (2014). "Real Estate Goes Global." *The New Yorker*, May 26. The concept is also reflected in the description of London's luxury residential market as "towers of safe-deposit boxes" for "spare cash," in the words of the City of London's Planning Officer from 1985 to 2014. See Peter Wynne Rees (2015). "London Needs Homes, Not Towers of Safe-Deposit Boxes." *The Guardian*, January 25.

[9] See, for example, David Ley (1980). "Liberal Ideology and the Postindustrial City." *Annals of the Association of American Geographers* 70(2), 238-258; David Ley (1987). "Styles of the Times: Liberal and Neo-Conservative Landscapes in Inner Vancouver, 1968-1986." *Journal of Historical Geography* 13(1), 40-56; David Ley (2010). *Millionaire Migrants: Trans-Pacific Life Lines*. Chichester, UK: Wiley-Blackwell; Kris Olds (1998). "Globalization and Urban Change: Tales from Vancouver via Hong Kong." *Urban Geography* 19(4), 360-385; and Katharyne Mitchell (1993). "Multiculturalism, or the United Colors of Capitalism." *Antipode* 25(4), 263-294.

[10] Surowiecki (2014), "Real Estate...," and Jessica Dorfmann (2015). "New Wealth Seeks a 'Home': The Rise of the Hedge City." *Harvard International Review*, April 15.

[11] The advertisement, for Kenstone Properties' Addition Living at the corner of Hornby & Helmcken, featured an excerpt of Fink's quote beneath a list of cities with check-mark boxes: "New York. Vancouver. London." See Rennie Marketing Systems (2015). "International City. International Design." Advertisement, *Vancouver Sun*, June 20, G16. Burgos and Ismail's *Bloomberg* story was picked up the next day in the *Financial Post*, and

cited by an Opposition member in the B.C. Legislature, who asked, would the Provincial Government consider measuring "what's happening in terms of international and perhaps even domestic investors in property who don't live in the units and are simply holding them as investments?" The Minister Responsible for Housing responded that the issue "has virtually nothing to do with the ministry for housing at all. We don't have the Real Estate Act in this ministry, so we don't have any issues around real estate." The reason housing in the Lower Mainland "is attractive internationally," the Minister emphasized, "is because it's actually pretty reasonable compared to other cities like London, Singapore, Tokyo..."[12]

This logic — the global attractiveness of urban real estate compared across different cities and alternative investment classes — has become a dominant issue in the geography of public policy in the twenty-first century. The century began with an uneven yet global boom in house prices and mortgage lending, led by the push from commercial and investment banks in the United States to 'securitize' increasingly risky but profitable home loans into internationally-traded financial instruments — mortgage-backed securities, collateralized debt obligations, credit default swaps, and other derivatives that circulated in a vast, de-regulated trade that came to be known as the shadow banking system.[13] This system strengthened the connections between homeowners in local neighborhoods and the risk and yield preferences of large institutional investors around the world. The system drove house prices to unprecedented levels over nearly a decade, with an overcapitalization of residential structures and ancillary activities that led to systemic distortions in the incentives for consumers as well as investors, lenders, and home builders.[14] But prices eventually crested in an uneven plateau across the U.S. urban system between 2005 and 2006, and then a decline gathered momentum that reversed the Ponzi-leveraged values of derivatives — culminating in the 2008 collapse that then-Federal Reserve Chair Ben Bernanke called "the worst financial crisis in global history, including the Great Depression."[15] In the U.S. alone, the integration of city residential real estate into global

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accompanied with tables contrasting the negative 1-, 3-, and 5-year return on gold with the dramatic increases in 'Vancouver residential and composite property' across the region's submarkets. 10-year benchmark percentage price changes are led by Vancouver East (96.9%), West Vancouver (93%), Vancouver West (86.5%), Richmond (77.7%), and Burnaby South (72.9%).

[12] Hansard (2015). David Eby and Rich Coleman, *House in Committee, Legislative Assembly of British Columbia*, Vol. 26, No. 6, May 14, quotes from p. 8,540-8,541.

[13] From 1978 to 2007, the total debt held by the financial sector in the U.S. doubled as a share of Gross Domestic Product, and at the peak the total notional value of over-the-counter derivatives reached $673 trillion. See Financial Crisis Inquiry Commission (2011). *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*. Washington, DC: U.S. Government Printing Office, p. xviii, xxiv.

[14] See, for example, Alan Greenspan's analysis of how home equity lending became "bridge financing for personal consumption expenditures" — to pay off rising credit card balances. Alan Greenspan and James Kennedy (2007). *Sources and Uses of Equity Extracted from Homes*. Finance and Economics Discussion Series, No. 2007-20. Washington, DC: Federal Reserve Board. On the debate regarding the role of land-supply restrictions in creating housing-cycle volatility that shapes urban developers' expectations, see Thomas Davidoff (2013). "Supply Elasticity and the Housing Cycle of the 2000s." *Real Estate Economics* 41(4), 793-813. Davidoff finds no evidence that cross-sectional differences in land supply influenced the severity of the housing cycle in the 2000s. There is no doubt, however, that the overallocation of credit to housing-related financial derivatives — the prices of which were modeled on the universal mantra that 'house prices have never declined on a national basis since the Great Depression' — became a self-reinforcing cycle that distorted the incentives for all actors in a position to invest in anything related to housing. See Adam J. Levitin and Susan M. Wachter (2013). "Why Housing?" *Housing Policy Debate* 23(1), 5-27.

[15] Testimony reported in Financial Crisis Inquiry Commission (2011), *Final Report*, p. 354.

financial markets destroyed more than $7 trillion in home equity (with especially severe and lasting losses for African American and Latino households) and required government bank bailouts and guarantees totalling more than $23 trillion.[16] Financial institutions around the world were destabilized, requiring bailouts that eventually transformed a private-sector *banking* crisis into a public-sector *sovereign debt* crisis of painful budget austerity, mass protests, and corporate retrenchment to cut costs in the face of uncertain market demand for products and services. These conditions have suppressed overall economic growth rates ever since, and corporations have remained reluctant to risk capital in productive business activity: instead, a rising share of capital investment is focused on the search for assets where value can be stored and capital gains can be achieved through further rounds of competitive bidding for property rights. The years since 2008, therefore, have seen successive waves of speculative bubbles in stocks, commodity futures, patents, trademarks, and other intellectual property rights, and especially real estate.[17] As corporations and investors have remained reluctant to risk investing in productive businesses, the "new normal" of "secular stagnation" has forced policymakers into historically unprecedented measures in efforts to restart growth.[18] By the Spring of 2016, central banks representing a quarter of the world's GDP had reduced effective interest rates below zero, with more than $10 trillion in sovereign debt trading at negative rates; the *Financial Times* reports that "The alarm bells are ringing louder among investors facing a growing universe of negative and ultra-low interest rates."[19]

Canadian Exceptionalism?

Bailouts, 'quantitative easing,' and ultra-low interest rates have restored the financial sectors of most 'advanced' economies, but at the expense of re-inflated property values that have once again diverged from the "fundamentals" of classical housing market valuation — local employment and wage growth, and net new household formation. Canada, and especially Vancouver, has been at the leading edge of this new bubble. Despite a widespread perception of "Canadian exceptionalism" of prudent lending and regulation that avoided the risks of American

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[16] Even after the crisis of 2008 as White household wealth levels stabilized between 2009 and 2011, the median African American household lost a further 13 percent of total wealth and 40 percent of non-home equity wealth. Sarah Burd-Sharps and Rebecca Rasch (2015). *Impact of the U.S. Housing Crisis on the Racial Wealth Gap Across Generations*. New York: Social Science Research Council, p. 2. See also Jacob W. Faber and Ingrid Gould Ellen (2016). "Race and the Housing Cycle: Differences in Home Equity Trends Among Long-Term Homeowners." *Housing Policy Debate* 26(3), 456-473. The full array of emergency bailout programs and guarantees are itemized in Special Inspector General for the Troubled Asset Relief Program (2009). *Quarterly Report to Congress, July 21*. Washington, DC: Office of the Special Inspector General for the Troubled Asset Relief Program.

[17] Just prior to the collapse in oil prices in the Summer of 2014, one of the economics correspondents for the *New York Times* described the global bubble in particularly vivid terms: "Welcome to the Everything Boom — and, quite possibly, the Everything Bubble. Around the world, nearly every asset class is expensive by historical standards. Stocks and bonds; emerging markets and advanced economies; urban office towers and Iowa farmland; you name it, and it is trading at prices that are high by historical standards relative to fundamentals. The inverse of that is relatively low returns for investors." Neil Irwin (2014). "Welcome to the Everything Boom, or Maybe the Everything Bubble." *New York Times*, July 7.

[18] The phrase "secular stagnation" was introduced by former U.S. Treasury Secretary Lawrence Summers several years ago, and recently U.S. Federal Reserve Chair Janet Yellen referred to slow growth, slumping productivity, and slow inflation as the "new normal." Jeanna Smialek, Christopher Condon, and Luke Kawa (2016). "Debate Blooms at Fed as Policy Makers Wrestle with 'New Normal.'" *Bloomberg*, June 17.

[19] Robin Wigglesworth and Adam Samson (2016). "Why Unease Over Negative Interest Rates is Mounting." *Financial Times*, May 6, p. 18.

excess, Canada's housing market has been dramatically transformed by hidden subsidies and financial leverage. From 1990 to 2001, average mortgage values in Canada wavered around 167% of average household incomes, but then with the introduction of the Canada Mortgage Bond program in 2001, this figure began a steep rise, reaching 211% by late 2006. After a set of 2006 changes to the National Housing Act forced the Canada Mortgage and Housing Corporation (CMHC) to compete with private mortgage insurers, reduced downpayment requirements, and lengthened amortization periods, the ratio shot up to 235% by August, 2008.[20] This trend was only briefly interrupted by the 2008-2009 credit crisis, with liquidity infusions to Canada's major banks through the Extraordinary Finance Framework, the Term Loan Facility, and the Term Purchase and Resale Agreement; all of these emergency measures pumped Canadian public funds into loans collateralized by the illiquid assets of banks that had become even more highly leveraged than their U.S. counterparts.[21] Over the full period between 1990 and 2009, therefore, housing finance policy flooded real estate markets with increasingly leveraged capital: the correlation between average mortgage-to-income ratios and average prices exceeded 0.98.[22] By 2011, analysts at the International Monetary Fund and the *Economist* were warning that Canada's home price increases could not be justified by underlying fundamentals, and Bank of Canada Governor Mark Carney delivered a particularly clear diagnosis of the dangers in a speech to the Vancouver Board of Trade:

> "As in many other countries, cheap credit has been used to bid up the price of Canadian houses, a non-tradeable good, rather than invest in expanding the productive capacity and export competitiveness of our businesses. ... Domestic demand factors are not the only forces at work. Some Asian wealth is being invested in selected international housing markets as those investors seek out diversification and hard assets. ... Partly as a consequence, the average selling price of a home in Vancouver is now nearly 11 times the average Vancouver family's household income, a multiple similar to those seen in Hong Kong and Sydney — cities that have also become part of a more globalized real estate market. Such valuations are extreme in both Canada and globally. Given such developments, one cannot totally discount the possibility that some pockets of the Canadian housing market are taking on characteristics of financial asset markets, where expectations can dominate underlying forces of supply and demand. The risk is that expectations become extrapolative, prompting the classic market emotions of greed and fear — greed among speculators and investors — and fear among households that getting a foot on the property ladder is a now-or-never proposition.[23]

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[20] From Statistics Canada data analyzed in R. Alan Walks (2014). "Canada's Housing Bubble Story: Mortgage Securitization, the State, and the Global Financial Crisis." *International Journal of Urban and Regional Research* 38(1), 256-284.

[21] The leverage ratio between tangible assets and tangible common equity for Canada's top five banks was at an average of 33.3 to 1 between 2007 and 2009, well above the corresponding ratios for the top ten U.S. banks during this period. See Walks (2014), "Canada's Housing Bubble," p. 268.

[22] Walks (2014), "Canada's Housing Bubble," p. 275.

[23] Mark Carney (2011). "Remarks by Mark Carney, Governor of the Bank of Canada, Vancouver Board of Trade." June 15. Ottawa: Bank of Canada.

Vancouver's Real Estate Growth Machine

Such clear language is exceedingly rare among central bankers, who fully understand how their every word carries the potential to rattle financial markets. Carney's warnings suggested that there might be limits to the speed of the "growth machine" that has defined the city's economic structure ever since the difficult economic transitions of the 1970s, an era that the late UBC urban geographer Walter G. Hardwick defined as the "post-industrial challenge."[24] That transition involved strategic efforts by City and Provincial leaders in business and government to redesign the regional economy, to replace the obsolete, unstable earnings of lumber, raw materials exports, and small branch offices of companies headquartered elsewhere in Canada, the U.K., or the U.S. The new formula involved strengthening connections to East Asia, nurturing 'quaternary' services (research and development, marketing, advertising, education), and expanding tourism and the other activities Hardwick called the "experience industries" catering to a growing "leisure aristocracy."[25]

Urban development and real estate, always an especially important part of the regional economy, became even more central with the integration into vast new frontiers of capital accumulation in the Asia-Pacific. The new template for growth was forged when old railroad and waterfront industrial lands in central Vancouver were cleared to host the 1986 World Exposition, and a deal was struck to encourage the Hong Kong property tycoon Li Ka-shing to lead the redevelopment of the Expo site into what became North America's largest single master-planned residential community. From the outset, however, the new real estate growth machine intensified social and ethno-racial tensions in a city built through a history of virulent anti-Asian racism (with particularly severe anti-Chinese violence). Yet from the late 1960s to the 1980s that intergenerational history was changing fast as the relations between ethnoracial identity and class position shifted: if the first decades of Vancouver's history were defined by a hostility towards people of Chinese descent for being *too poor*, the last decades of the twentieth century brought a resentment towards those of the Chinese diaspora who were seen as *too wealthy*.[26] The first few hundred condominiums built by Li Ka-shing's family conglomerate were sold in just three hours of bidding in Hong Kong in December, 1988, an event that "fuelled anti-Hong Kong sentiment" in Vancouver and led a City Councillor to remark, "The basic issue is to give Canadians the first and only chance to buy: that means Canadian residents or landed immigrants. No offshore people should be allowed to speculate in this market."[27] But if the legacy of racial prejudice was very real, the city's evolving growth coalition moved quickly to develop a powerful, universal

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[24] Walter G. Hardwick (1974). *Vancouver*. Don Mills, ON: Collier Macmillan Canada, pp. 188ff. The "growth machine" concept, a fundamental theory of urban sociology and political science that examines how the shared incentive to pursue growth helps to unify groups with otherwise conflicting interests, was first explicated in Harvey Molotch (1976). "The City as a Growth Machine: Toward a Political Economy of Place." *American Journal of Sociology* 82(2), 309-332.

[25] Hardwick, *Vancouver*, p. 193, 197, 198.

[26] This point was expressed most clearly at a June, 2016 public forum, where Janine Wing-Sea Leung of the Chinatown Action Group described her community's careful approach to the history, status, and meanings of Vancouver's Chinatown — a place built on unceded Coast Salish territory but then reproduced through ethnoracial labor-market exploitation and housing-market exclusion against Chinese people. Before, Chinese people were scapegoated for being *too poor*, and taking all the jobs; now they are scapegoated for being *too rich*, and taking all the homes. *Reconcile This: Uniting Struggles Against Colonial Dispossession and Capitalist Displacement*. Vancouver: Grandview Calvary Baptist Church, June 11.

[27] Councillor Harry Rankin, in the *Vancouver Sun*, 1988, quoted in Mitchell, "Multiculturalism," p. 264.

response: any and all opposition to unrestrained development and capital investment could be defined as inherently racist. The pattern was immediately set in response to the 1988 offshore condo sales, when the Chair of the Vancouver International Financial Centre, a Professor in UBC's business school, explained the controversy: "People who experience change ... look for a bogeyman to blame. Now it is really easy to blame foreigners, especially visible minorities for these changes. If the same units had been marketed in London, I suspect the outcry would have been much less."[28]

Ever since Expo '86, Vancouver's development community has coalesced around a tripartate formula:

1) ***Aggressive entrepreneurial pursuit*** of capital investment from Asia through corporate partnerships, trade delegations promoting Canada, British Columbia, and Vancouver as ideal investment opportunities, and Provincial lobbying for federal immigrant investor programs that have made the metropolitan area the world's single most important destination for wealth-related migration.[29]

2) ***Careful message management***, exploiting the very real history and present persistence of racial prejudice in order to discredit even the most legitimate opposition to development, investment, and property price escalation as inherently racist — "charges of racism are being used to justify the housing status quo and continue the inflow of money," as Andy Yan puts it.[30]   Fundamental correlates to the message involve denying that offshore capital flows play any significant role in shaping the local market,[31] and emphasizing the lack of reliable data to

[28] Michael A. Goldberg, in the *Vancouver Sun*, 1988, quoted in Mitchell, "Multiculturalism," p. 264.
[29] See David Ley, "Global China," and Ian Young (2015). "Millionaire Migration to Canada Didn't Fall After Investor Scheme's Axing -- It Rose, New Data Reveals." *South China Morning Post*, 23 July, and Ian Young (2014). "A Vancouver Real Estate Cheerleader Crying 'Racist'? Don't Bother Kow-Towing in Gratitude." *South China Morning Post*, 4 June. As Young puts it, "An extraordinary situation (Vancouver's housing unaffordability being the second-worst in the world behind Hong Kong), requires an extraordinary explanation. So, in what other way is Vancouver globally extraordinary, statistically speaking? That's obvious - wealth migration. Vancouver is the most popular destination city for wealth-based migrants and would-be migrants in the world. Not London, not New York, and not Monaco." David Ley estimates that immigrant investor programs since the 1980s have brought approximately 200,000 immigrants to the Vancouver region. Cameron St. John, an agent who grew up in Vancouver and now helps a Chinese venture capitalist buy properties in Alberta, told a reporter that Vancouver has "already become a retirement suburb of Beijing." Quoted in Kerry Gold (2016). "The Highest Bidder: How Foreign Investors are Squeezing Out Vancouver's Middle Class." *The Walrus*, March 30.
[30] Quoted in Kerry Gold, "The Highest Bidder." In late 2015, Yan undertook a meticulous study of the title and land transfer records for a six-month period in several of the hottest West-side Vancouver neighborhoods, and estimated that Chinese buyers accounted for two-thirds of all residential purchases. Kerry Gold summarizes what happened next: "Yan released his findings to the media on a Monday last November. By the end of the week, the forty-year-old academic was fending off attacks from those who claimed his data smacked of racism. 'This can't be about race,' Mayor Gregor Robertson told CBC's *The National*, 'and it can't be about dividing people.' In the same segment, development consultant Bob Ransford echoed this sentiment. 'The danger,' he said, 'is intolerance, racism, singling out certain groups of people, saying they're to blame for this.'"
[31] In some cases the message management of this denial involves strange dog-whistle political references. As the housing crisis boiled over in April, 2016, an Opposition member posed a direct question to the Premier in the B.C. Legislative Assembly, "My question is this: Does she believe it's fair the offshore speculators get first crack at homes that hardworking British Columbians are trying to save for and buy?" The Premier responded, "As the member knows, people from around the world" live "in British Columbia, which is still a free market. ... Until we make that great leap forward, we are still a capitalist society where people can invest from around the world. That's

indicate any problems; in turn, inaction by public authorities ensures that no data are available beyond 'anecdotal' accounts or proprietary industry statistics.[32]
3) ***Consistent policy recommendations*** that the only "key to improving housing affordability ... is creating new supply,"[33] with fewer restrictions and regulations — reinforcing and justifying the real estate growth machine as the only possible solution to the problems it has created.

An Overheated Growth Machine?

Yet in the years since Mark Carney's stark warning to the Vancouver Board of Trade in 2011, the coalitions supporting the growth machine have been stretched to the limit, and the old formula is beginning to fail. Several factors came together.

First, the sheer magnitude of capital flows accelerated, and some of the consequences began to attract more scrutiny. In 2014, the influential Shanghai-based *Hurun Report* released the results of a survey of Chinese High Net Worth Individuals (HNWIs) indicating that 64 percent were currently in the process of emigrating or considering doing so, and the "top three cities for buying property abroad" were Los Angeles, San Francisco, and Vancouver.[34] In 2015, as capital outflows from the P.R.C. approached an unprecedented US$1 trillion,[35] it became clear that not all capital investment could be regarded as innocent or benevolent. Since the commencement of Xi Jinping's anti-corruption campaign, financial institutions in the Vancouver region have reported more than 8 thousand suspicious transactions to FinTRAC, Canada's money-laundering watchdog — and the banks proceeded to facilitate 96 percent of those transfers.[36] Further details in a B.C. Supreme Court case made it clear that it had become a widespread practice for Canadian banks to help wealthy families circumvent China's US $50,000 annual limit on capital taken out of the country, and that there were direct links to Vancouver's property market.[37] At

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been the case in British Columbia for a long time." Hansard (2016). Mike Farnworth and Christy Clark, *Official Report of the Debates of the Legislative Assembly*, Vol. 37, No. 3, April 13, p. 12149.

[32] "When a government doesn't want to address a thorny issue, a typical move is to delay action with a call for more information. Further study is justified in the name of good policy. But sometimes further study, when sufficient evidence already exists and the situation is a crisis, is unacceptable." Josh Gordon and Anjum Mutakabbir (2016). "Sure, Collect the Housing Data — But We Can't Afford to Wait to Act." *Globe & Mail*, March 29, p. B4. In some cases the absence of data requires sophisticated, almost surrealistic inferential techniques to estimate the scope of offshore ownership. In the Spring of 2016, National Bank of Canada analysts used international investment estimates from the U.S. National Assocation of Realtors — "There is no such data collected in Canada" — to estimate that Chinese buyers accounted for one-third of the $38 billion in 2015 residential transactions in Vancouver. Joanne Lee-Young (2016). "Chinese Big Buyers of Residences: Report." *Vancouver Sun*, March 24, A6.

[33] This is from the Provincial Ministry of Finance's written statement issued after declining an on-camera interview with the producers of Vice, who filmed the documentary *Surreal Estate* in Vancouver, released in early 2016.

[34] Hurun Report (2014). *Immigration and the Chinese HNWI 2014*. Shanghai, PRC: Hurun Report and Visas Consulting Group.

[35] Bloomberg (2015). "China Capital Outflows Rise to Estimated $1 Trillion in 2015." *Bloomberg*, January 25.

[36] Kathy Tomlinson (2015). "Canadian Banks Helping Clients Bend Rules to Move Money Out of China." *Globe & Mail*, September 8.

[37] The case that drew widespread attention to money-laundering practices involved CIBC's firing of Guiyen Ogden, a financial advisor for the Imperial Service division, after she commingled funds from a client "in urgent need of two bank-account holders that could receive funds from China in order to close a property transaction." *Ogden v. Canadian Imperial Bank of Commerce*, 2015 BCCA 175. Ogden, who had built a Cdn $ 233 million portfolio of

the same time, a scandal exploded over the abuse of an obscure provision of B.C. deed transfer laws that allowed unscrupulous Realtors to re-assign property sales to successive bidders even after a seller had agreed to a transaction at a specified price; this "shadow flipping" practice denied sellers the full price available in a rising market, yielded major windfalls for Realtors able to exploit gaps in market information, and constituted a legalized form of transfer tax evasion by disguising multiple transactions behind the mask of a single sale.[38] Revelations of shadow flipping undermined the credibility of the industry's self-regulatory structure, with disciplinary and enforcement powers held by a realtor-dominated Real Estate Council of B.C.[39] The scandal forced the Premier to authorize an investigation by an independent advisory group that finally began to raise serious questions about the industry's systemic practices.

"primarily wealthy Chinese immigrants," was repeatedly praised by managers as a "top performer," "among the top in the District, Western District, and country," but her response to an urgent phone call from a client in September, 2010 led to her eventual termination. A Chinese client had been approved for a Cdn $ 3.45 million line of credit to buy a Cdn $ 5.7 million home in Vancouver, and needed just over Cdn $ 500,000 for the deposit on the home. The client had used a common tactic ("smurfing") of dividing transfers among multiple accounts to avoid the $50,000 limit, but was still short two accounts to transfer a final $100,000 on the day before the deposit was due. After the client called Ogden late at night on September 9, Ogden transferred the funds through her own account and a joint account she held with her husband. When Ogden was fired for violiating the bank's code of professional ethics, she sued and claimed that the bank's rules were not clearly defined. The trial testimony revealed, as a judge put it, that "working around" the $50,000 transfer limit for P.R.C. citizens "was a challenge and a complicated process, but it was a practice CIBC supported." Defending the decision to fire Ogden, a CIBC human resources manager testified,

> "...if it got into the media that we were using our own personal accounts to put — take people's money out of another country and — and then forward them on to accounts here to help get that money out, it really doesn't make CIBC look good. We — we definitely want to be seen as being — protecting people's money, protecting — I — It — Sorry. I'm just — It's — To me, it's just such an obvious thing, it's hard to know where to start, that it is the wrong thing to do. It puts us — If we got that on the front page of the Globe and Mail, it would — it would make people look at us and not trust our organization as much."

Ogden's persistence in fighting the termination — which led to the loss of her license to work as a financial advisor — eventually allowed a *Globe & Mail* investigation into what had apparently become a widespread banking practice: complying with the letter of Canadian law while facilitating transactions clearly defined by other jurisdictions as money laundering.

[38] Shadow flipping is not entirely new, but the practice spread as the market accelerated and created arbitrage opportunities of hundreds of thousands of dollars. Local stories proliferated, often featuring elderly, Anglo White Canadians who sold their properties only to later discover that a realtor had flipped the transfer once or more to a final buyer, often from Mainland China, who paid well above the seller's price. With enormous profits at stake for intermediaries in a position of arbitrage across ethnoracial/cultural divides and asymmetric information, the practice is a transnational and upscale inversion of the "blockbusting" tactics used by U.S. realtors in the 1960s and 1970s to profit from Whites' fears of African American neighborhood succession. Whereas America's "urban crisis" years of "White flight" involved exploiting ethnoracial differences to extract profits from *decline*, Vancouver's contemporary market involves profiting across difference amidst intense price *escalation* and FOMO, 'fear of missing out.' Anecdotal accounts of shadow flipping in Vancouver proliferated for several years, until the scandal burst into open view after the disclosure and translation of an audio recording of one realtor conducting a Mandarin training session on how to pressure sellers to accept low-ball offers to maximize the returns from flipping. "It is only a saying to the homeowner, but actually it's not true," said Ze Yu Wu in a training workshop for his real estate agents at New Coast Realty; "The first offer will never be the best offer, I am sure about this. But you have to say the first offer is the best offer," and "You must print out the lowest prices in the neighbourhood to show to the homeowner" to convince them to sell quickly. Wu is a Permanent Resident who has been in Canada for a decade, and he runs one of the region's largest, fastest-growing firms — New Coast has some 445 agents, and was involved in at least Cdn$1 billion in transactions in 2015 (not including private deals not appearing in MLS data). But Wu is not a licensed real estate agent or broker. See Kathy Tomlinson (2016). "Tricks of the Trade: Inside a B.C. Real Estate Firm That Has Home Sellers Crying Foul." *Globe & Mail*, April 8.

[39] The Council is comprised of 13 real estate agents elected by realtors, three government appointees, and one member selected by the Council to represent strata (condominium) owners.

Second, new local voices commanded attention in ways that could not be so easily dismissed under the old formula. "The realization that something is grotesquely awry with Vancouver's housing market has reached a tipping point," wrote Ian Young in the Spring of 2015.[40] Part of that awakening was spurred by Young's own investigative reporting on the complex interplay between wealth, property, and ethnic-racial identities in the growth machine.[41] Part of the awakening came from Andy Yan's steady stream of vivid maps and charts documenting the market's relentless escalation. And part of the awakening involved the frustration of Evelyn Xia, a young professional coming to terms with the impossibility of balancing career, family, and home in a city where globalizing capital is pushing out not only the poor and working classes, but more and more of the middle and upper-middle classes as well. Xia posted a photograph of herself on Twitter with a simple sheet of paper, "M.Sc. Environment 29 / F," and asked "To thrive, does @CityofVancouver not need people like you and me?" Xia's hashtag — #DontHave1million — quickly went viral and created a vibrant forum for the real estate horror stories of the city's Millennials.[42] Xia then organized a "Give Us The Data" rally, directed at public officials who repeatedly cited the lack of reliable public data while cherry-picking statistics from closely-guarded industry data to dismiss concerns about speculation and offshore

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[40] Ian Young (2015). "Something is Grotesquely Wrong with Vancouver's Housing Market, and the Time for Denialism is Over." *South China Morning Post*, May 21.

[41] Ian Young (2015). "Something is Grotesquely Wrong..." In 2014, Young wrote a column describing Meena Wong's entry into the Mayoral race for Vancouver and her hopes of becoming the "first Chinese mayor of Vancouver, one of the world's most Chinese cities outside Asia." The column generated a wave of criticism for the use of "Chinese" as a descriptor, both as applied to the City and to Wong. "Being the Vancouver correspondent for an English-language Hong Kong newspaper (the majority of whose readership is ethnically Chinese) puts me in an unusual position among my Vancouverite peers," Young wrote in response. "My frequent use of 'Chinese' as an ethnic or cultural descriptor has variously resulted in accusations that I am anti-Chinese, pro-Chinese, anti-Canadian, or even anti-HongKonger." Ian Young (2014). "Why Chineseness Sometimes Matters When Reporting on Vancouver." *South China Morning Post*, September 24. See also Ian Young (2016). "If the Name of the 'Hongcouver' Blog is Racist, What About the 'VanChina Monologues' Instead? Discuss." *South China Morning Post*, May 19. Young chose to call his *SCMP* column, launched in late 2013, 'The Hongcouver' as a "little act of cultural reclamation and subversion, in the way that NWA used the N-word to demonstrate their attitude." Young has consistently challenged the remnants of old-fashioned bigotry associated with the 'Hongcouver' label, but has also carefully disentangled the 'Chineseness' and the 'millionaireness' of the contemporary influx of capital from mainland China into the Vancouver property market. For Young, 'Hongcouver' simultaneously serves as an inside joke to his Hong Kong readers, the signifier of a genuine, real identity of a rich, nuanced, and authentic culture rooted in the "back and forth flow between the two cities," and a word that can "represent a raised middle finger to bigots who crave bell-jar separateness."

[42] The generational theme has grown more prominent in local discourse for several years. In the Fall of 2011 amidst the Occupy protests, *Vancouver Magazine* published "Going, Going ... Gone," a story about the exodus of the city's young professionals unable to survive in the overheated market. The story opened with James, 35, and Tina, 34, young parents with a combined income of about $80,000 living in a basement suite of a Vancouver Special (the derided yet beloved 1960s-1970s version of a modest Levittown-style Cape Cod). The search for a larger home in the city's unforgiving market, James tells the reporter, has been "a continual source of depression" for seven years. Then the reporter, Tyee Bridge, offers an interpretation: "Tina and James are part of what, real-estate-wise, might be called Vancouver's Generation Fucked. As the city becomes a global 'lifestyle destination,' tens of thousands of middle-class households are getting a hard lesson in diminished expectations." Tyee Bridge (2011). "Going, Going, Gone." *Vancouver Magazine*, November 1. The theme was reiterated in "Young, Smart, Gone," which included coverage of Andy Yan's analysis of the median earnings of 25-to-54-year old workers in Canada's ten largest metropolitan areas. "If you took those 10 median incomes and drew a line from first place (Ottawa) to last place (us), it would decline like a gentle slope before transitioning, suddenly, into a cliff — with Vancouver at the bottom. See Trevor Malanson (2016). "The Departed." *Vancouver Magazine*, June, 53-58, quote from p. 55.

investment. Xia's rally was an insistent, earnest demand that officials stop repeating the 'we need more information' refrain in order to justify a refusal to intervene in an out-of-control market that seemed to be excluding an entire generation of young professionals and families.

At first, the Millennials' charge of generational injustice prompted a quick backlash from some older homeowners, real estate industry representatives, and public officials — who variously claimed that 1) gaining access to homeownership has always been difficult, 2) many young first-time buyers' downpayments now come from their parents' ability to cash out on massive home equity gains, or 3) today's generation has no 'entitlement' to an expensive housing ideal (the detached single-family house and yard) that is obsolete in a twenty-first century era of dense, transit-oriented condominium development. But these messages were starkly contradictory — 'We did it, so can you' versus 'It's impossible, get over it!'[43] — and they quickly wore thin as the market escalated. The shadow flipping scandal was a reminder to modestly wealthy older members of the postwar baby-boom generation that they, too, could be exploited in a ruthlessly competitive market — and the only way to really cash out was to leave town.[44]

As escalating property costs percolated throughout the regional economy, the Millennials were joined by other voices. Employers began to speak more openly about one of the corrosive risks of the real estate growth machine: it becomes ever more difficult to recruit and retain workers. Ryan Holmes, CEO of the celebrated Silicon-Valley-North tech firm Hootsuite, sounded the alarm in a widely-read column, explaining how the "influx of global capital" was one of the factors that drives up living costs and

> "makes it exceptionally hard to grow a business in Vancouver. ... Qualified job candidates are deterred from moving to the city and great employees are leaving because they can't afford to build a life here. ... This lack of affordable housing has reached a crisis point. Vancouver risks becoming an economic ghost town: a city with no viable economy, other than a service industry catering to residents and wealthy tourists. ... The undercurrent of frustration is everywhere, impossible

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[43] The 'get over it' response was an explicit quip from Bob Rennie, the real estate marketing specialist locally famous as the 'Condo King.' At an Urban Development Institute luncheon in early June, 2016, Rennie argued that people have to "get over" the idea that they can live near their workplaces, and that the City of Vancouver should give up trying to provide enough affordable housing for those who work in the city. Observers quickly understood that Rennie's logic — travel as far as you have to in order to find an affordable home — was a direct contradiction of the City's heavily-promoted 'Greenest City' sustainability ambitions. See Allen Garr (2016). "Condo King Pitches Increased Transit to Help Offset Density Concerns." *Vancouver Courier*, June 9, A10.

[44] Economists at TD Bank Group issued a warning that price pressures in Toronto and Vancouver had essentially created a situation of "buyer gridlock," with families in entry-level homes trapped and unable to move up the housing ladder as family circumstances changed. As these 'gridlocked' households stay put, often spending money on renovations to try to make do with what they currently have, supply and price pressures are exacerbated for the next cohort of entry-level buyers. The TD economists compare the markets to the race to gain control of properties on a Monopoly gameboard — a metaphor with evocative historical and theoretical significance. The game of Monopoly was devised amidst the catastrophic competitive scramble for survival in the U.S. Great Depression, and the dominant economic theory of urban housing opportunity structures — housing "filtering" — came from the 1930s research of the land economist Homer Hoyt. See John Shmuel (2016). "Buyer Gridlock: Entry-Level Homeowners Priced Out of Upgrades." *Vancouver Sun*, May 28, C12, and John S. Adams (1987). *Housing America in the 1980s*. New York: Russell Sage Foundation.

> to miss. Even long-time homeowners who have benefited from rocketing real estate prices must sense this."[45]

Third, red-line indicators began to connect the local details of the region's housing crisis into a national and global story — with Vancouver frequently mentioned in financial narratives that came to echo the history of debt and leverage leading up to the 2008 Global Financial Crisis. In the Spring of 2016, the Real Estate Board of Greater Vancouver announced that the benchmark price for detached homes in the region had increased by 37 percent in a single year. Such extreme price escalation capped a decade of sustained annual price increases that had completely undermined the 'fundamentals' so widely used in housing market analysis: whereas hedonic regression models of single-family residential sales in the City of Vancouver in 2004 were able to account for more than three-quarters of the variation in sales prices in terms of the physical characteristics of homes bought and sold, similar models for the 2005-2015 period are only able to account for 40 to 60 percent of the variance, with a number of confusing and counterintuitive parameter estimates (Table 1). Bidding wars for mediocre properties — as well as competitive struggles for the property rights to locations containing homes destined for demolition and redevelopment (proxied by the land value share of total property assessment) — had created a nearly chaotic market that eluded the predictive tools of econometrics. The most consistent effects are massive price increases across a decade of low general inflation; after controlling for the characteristics of the housing units, single-family homes in the City of Vancouver in 2006 sold for $148,942 more than the same types of houses just a year earlier; the premium over 2005 prices increased rapidly in ensuing year, with only a slight pause during the 2008-2009 period of the Global Financial Crisis, and exceeded $1.5 million by 2015. A similar trend percolated outward through the rest of the Lower Mainland region for single-family homes and for other house types, with lower absolute increases that nevertheless remain enormous when compared with average selling prices.

The Organisation for Economic Cooperation and Development identified runaway prices in Toronto and Vancouver as a major risk to Canada's economy, warning that residential investment as a share of GDP is "unusually high" — now exceeding all other OECD countries.[46] Despite repeated federal steps to tighten mortgage downpayment requirements, key market segments continued to adapt to escalating prices in a familiar vicious cycle of leverage: the Bank of Canada's *Financial System Review* in June, 2016 reported that 58 percent of all new mortgages with at least a 20 percent downpayment had an amortization of longer than the standard 25-year period — a nearly 10 percentage point jump from 2014 to 2015.[47] Such trends bear a striking resemblance to the trajectory in the U.S. between 2004 and 2008, as predatory subprime lending targeted to low- and moderate-income African Americans in Northern inner-city neighborhoods evolved into 'exotic' mortgages marketed to a wider spectrum of middle-class Whites and Latinos stretching their incomes to afford the rising prices of fast-growing Sunbelt suburbs from Florida to Arizona, Nevada, and California — where price escalations driven by previous rounds of risky lending required further 'innovation' for borrowers to keep

[45] Ryan Holmes (2016). "Without Affordable Housing, Vancouver Risks Becoming an Economic Ghost Town." *Financial Post*, February 3.
[46] Paul Vieira (2016). "OECD Warns on Canada Housing, Household-Debt Risks." *Wall Street Journal*, June 13.
[47] Garry Marr (2016). "Mortgages Getting Longer for Low-Ratio Borrowers." *Financial Post*, June 28, C1.

Table 1. Hedonic Price Models of Vancouver Home Prices, 2005-2015.

	Single-Family Homes Only		All House Types
	City of Vancouver	Rest of Lower Mainland	Lower Mainland
Variable	Parameter	Parameter	Parameter
Intercept	(1,586,343) ***	(901,545) ***	(874,135) ***
Floor area in square feet	624.71 ***	137.45 ***	256.13 ***
Floor area squared	0.0029 ***	0.0171 ***	0.0107 ***
Bedrooms: 2	(44,320)	(18,992)	64,028 ***
Bedrooms: 3	(131,867) *	(52,015) ***	20,037 ***
Bedrooms: 4 or more	(299,373) ***	(98,850) ***	(56,895) ***
Full Bathroom info missing	(229,052) **	129,734 **	136,071 ***
Full Bathrooms: 2	106,767 ***	146,483 ***	90,949 ***
Full Bathrooms: 3	150,717 ***	203,432 ***	126,960 ***
Full Bathrooms: 4 or more	(813)	183,118 ***	92,553 ***
Part Bathrooms info missing	(88,345) ***	(95,149) ***	(74,073) ***
Part Bathrooms: 2	77,009 ***	98,246 ***	99,434 ***
Part Bathrooms: 3	36,889	322,918 ***	325,493 ***
Part Bathrooms: 4 or more	63,195 *	584,945 ***	609,683 ***
Year Built before 1920	(29,995)	74,675 ***	
Year Built 1920-1929	135,383 ***	201,380 ***	
Year Built 1930-1939	155,557 ***	148,968 ***	
Year Built 1940-1949	(41,796)	130,482 ***	
Year Built 1950-1959	(103,486) ***	62,334 ***	
Year Built 1960-1969	(289,634) ***	(3,255)	
Year Built 1970-1979	(319,271) ***	(51,469) ***	
Year Built 1980-1989	(311,296) ***	(49,230) ***	
Year Built 1990-1999	(73,886) ***	(1,539)	
Year Built 2000-2004	378,715 ***	97,138 ***	
Sales year 2006	148,942 ***	97,434 ***	76,280 ***
Sales year 2007	314,057 ***	191,828 ***	155,868 ***
Sales year 2008	385,757 ***	220,613 ***	190,238 ***
Sales year 2009	339,741 ***	187,547 ***	172,667 ***
Sales year 2010	503,006 ***	254,925 ***	226,004 ***
Sales year 2011	795,478 ***	357,667 ***	289,073 ***
Sales year 2012	856,739 ***	352,703 ***	289,163 ***
Sales year 2013	930,504 ***	412,969 ***	315,238 ***
Sales year 2014	1,140,466 ***	466,769 ***	360,358 ***
Sales year 2015	1,555,682 ***	582,997 ***	449,978 ***
Land Share of Tot. Ass'd. Value	1,248,419 ***	1,121,071 ***	820,227 ***
Single Family with Suite	(218,470) ***	(147,570) ***	(134,255) ***
Row house			45,197 ***
Duplex			62,890 ***
Triplex			330,425 ***
Fourplex			259,105 ***
Condo, 1 or 2 stories			215,068 ***
Condo, 3 to 5 stories			122,467 ***
Condo, 6 to 10 stories			170,401 ***
Condo, 11 to 20 stories			252,673 ***
Condo, more than 20 stories			251,382 ***
City of Vancouver			369,465 ***
No. of Sales analyzed	34,896	173,047	496,083
Average Sales Price	1,370,528	738,203	588,883
Model R-Squared	0.609	0.416	0.508

Notes: *Pr>\|t\|<0.05; **<0.01; ***<0.001. Reference categories are 1 Bedroom, 1 Full Bath, 1 Part Bath, Year built 2005-2015, and Sales year 2005.

Data Source: BC Assessment Parcel and Transaction File, via UBC Centre for Urban Economics and Real Estate.

up, while also creating the illusion of an endless cycle of speculative gains.[48] The lessons learned (and forgotten) from America's financially-engineered mortgages in the Global Financial Crisis are crucial here, given the way global investors' perceptions of a federal backstop to the private-but-'Government-Sponsored' enterprises Fannie Mae and Freddie Mac had forced the U.S. government to make the guarantees explicit amidst the market free-fall of 2008.[49] Just as the risks to Fannie and Freddie could finally be seen clearly between Wall Street and Washington, DC a decade ago, CMHC's mortgage insurance commitments are becoming clear between Bay Street and Parliament Hill. Ottawa backed 57 percent of Canada's $1.3 trillion in residential mortgages at the end of 2014, up from 37 percent in 1996,[50] and the unregulated non-bank mortgage lenders of the sort that proliferated in America's debt binge now account for about 15 percent of all originations in Canada.[51]

In a press conference announcing the release of the *Financial System Review* in early June, 2016, Bank of Canada Governor Stephen Poloz reiterated the warnings of his predecessor, emphasizing that price increases in Vancouver and Toronto had "gone beyond fundamentals." Instead, Poloz warned, the price runup was driven by "self-reinforcing expectations" of further capital gains.[52] By the time Prime Minister Justin Trudeau visited Vancouver and met privately with a panel of housing experts to gather advice on policy options, the international attention to the city's bizarre real-estate market was making the old City and Provincial talking points look downright silly: the mantra that there was insufficient data to conclude that offshore capital played a role

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[48] See Dan Immergluck (2008). "From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosures." *Journal of the American Planning Association* 74(1), 59-76.

[49] This decision still angers the free-market analysts at *The Economist*, who call the system "comradely capitalism," with taxpayer guarantees on a "mortgage debt monster" that is "the world's largest asset class" and "a menace to the world's biggest economy." The Economist (2016). "Nightmare on Main Street." *The Economist*, August 20. Despite an aggressively-marketed myth that Fannie and Freddie led the U.S. housing market into disaster, however, the reality was that these foundations of the system were the last to crumble: the riskiest market activities were led by independent mortgage companies, including many predatory operations that were subsidiaries of large national and multinational banks. In one famous incident, Angelo Mozilo, CEO of Countrywide Mortgage, angrily threatened the CEO of Freddie Mac — "You need us more than we need you" — when Freddie hesitated to buy the increasingly risky loans produced by Countrywide's origination machine. The private, independent mortgage company part of the industry collapsed beginning in early 2007, and over the next year the risks spread through larger and more powerful banks until Fannie Mae and Freddie Mac were on the edge of disaster in the Summer of 2008.

[50] Tim Kiladze (2016). "In Canada's Debt-Fuelled Housing Market, Banks Should Take Their Fair Share of Risk." *Globe & Mail*, August 17, B1, B2.

[51] David Berman (2016). "Non-Bank Mortgage Lenders See Market Share Surge: Memo." *Globe & Mail*, August 17, B3.

[52] Barrie McKenna (2016). "Rising Risk of Housing Correction in Vancouver and Toronto, Poloz Warns." *Globe & Mail*, June 10, A1, A13. Poloz's presentation of the *Financial System Review* emphasized three 'financial system vulnerabilities': Canadian household indebtedness, 'imbalances' in the Canadian housing market, and troubles in the liquidity of fixed-income markets. "The first two vulnerabilities, household indebtedness and imbalances in the housing market, have both moved higher since our last report," Poloz noted in his opening statement. "However, ...[o]ur view is still that a strengthening economy and rising incomes will reduce these vulnerabilities over time for the country as a whole. Nevertheless, it was the view of Governing Council that this conclusion merited a caveat, which is that the pace of house price increases in Toronto, and especially Vancouver, is unlikely to be sustained, given underlying fundamentals. This suggests that prospective homebuyers and their lenders should not extrapolate recent real estate price performance into the future when contemplating a transaction. Indeed, the potential for a downturn in prices in these markets, while difficult to quantify, is growing." Stephen S. Poloz (2016). "Opening Statement by Stephen S. Poloz, Governor of the Bank of Canada, Press Conference following the Release of the *Financial System Review*." June 9. Ottawa: Bank of Canada.

appeared foolish with the incessant barrage of ever more extreme stories. 'Anecdotal' evidence becomes persuasive when more and more people have direct experience with the anecdotes that shape the adventurous competition of a globalizing market. While public officials and industry representatives continued to downplay the role of offshore capital, Ian Young and other journalists have had no trouble documenting ever more vivid cases that provide compelling (if often rather sensationalized) evidence of deeply transnationalized relations of property. "I had a chicken farmer from Southern China come to my office," said Sonny Wong, a marketer who provides advice to wealthy immigrants, speaking to a reporter from *The Guardian*:

> "His income the previous year was US $100m. He doesn't have a university education. Ultimately, though, he just wants to do well for himself and his family. So what do you do when you move to a new country? You buy a car and a house. And a $5m house and a Maserati are within his means. If you can afford it, that's what you buy."[53]

Moreover, Kathy Tomlinson of the *Globe & Mail* documented in unprecedented detail how the concept of the "hedge city" had become the core business model for the billion-dollar real estate firm at the center of the shadow-flipping scandal.[54] "We should sell the house fast and buy the house fast," Ze Yu Wu instructed his large team of agents at New Coast Realty, explaining how convincing sellers to accept lowball offers would maximize the opportunities to flip and earn more commissions. New Coast had been established with funding from multi-millionaire investors in the P.R.C. In light of the firm's extensive use of transnational marketing networks and its use of the social media platform WeChat to advertise contract assignments,[55] Wu's lessons to his agents should be understood as an almost perfect, localized real-estate expression of the accelerating speed of bond and equity turnover that is now imperative on Wall Street and other world financial markets,[56] or of the prominent 'global city' theorist Saskia Sassen's concise summary of the U.S. mortgage-driven securitization that precipitated the Global Financial Crisis: "When Local Housing Becomes an Electronic Instrument."[57] One of the articles in New Coast's bilingual newsletters refers to selling to P.R.C. citizens searching for a "safe house for their wealth":

[53] Quoted in Tyler Stiem (2016). "Race and Real Estate: How Hot Chinese Money is Making Vancouver Unlivable." *The Guardian*, July 7.
[54] Tomlinson (2016), "Tricks of the Trade," *op. cit*.
[55] Tomlinson's follow-up investigation documented, among other things, a pair of shadow-flips explicitly advertised on WeChat for Cdn$1.15 million and Cdn$1.85 million. Kathy Tomlinson (2016). "Vancouver Real Estate Firm's New Ads Feature 'Shadow Flipping' Homes." *Globe & Mail*, April 20.
[56] Michael Lewis (2014). *Flash Boys: A Wall Street Revolt*. New York: W.W. Norton.
[57] Saskia Sassen (2012). "Expanding the Terrain for Global Capital: When Local Housing Becomes an Electronic Instrument." In Manuel B. Aalbers, ed., *Subprime Cities: The Political Economy of Mortgage Markets.* Chichester, UK: Wiley-Blackwell, 74-96. Other aspects of Tomlinson's investigation highlight the emphasis on speed, urgency, and electronic communication as a means of pursuing profitable arbitrage opportunities. Tomlinson describes a seller pressured to sell quickly — a bid good only 'until midnight' — being told that the buyer planned to move into the house, but was flying back to Asia the next day. Then, even before the sellers had moved out of the home, the buyer's agent asked to host an open house so that the new owner could find a new buyer to assign the contract to. Tomlinson's investigation revealed that the intermediate 'buyer' was actually a locally-based director of New Coast. The contract was assigned, and then shortly thereafter listed once again, for Cdn$400,000 more than the original seller's price a few months earlier.

> "The already lively real estate market in Vancouver is further taking giant leaps forward as a result of the Chinese anti-corruption policies ... Experts predict that with the increasing strictness of the anti-corruption policies in China it will continue to cause cash flow into the Vancouver housing market. Tapping into the patterns of these trends will help both buyers and sellers make the right and easy choice."[58]

'Wildfires' and Policy Pivots

After years of economic fundamentalism that echoed Alan Greenspan's famous declarations that asset bubbles can only be identified after they burst,[59] the consensus among top economists and banking analysts — in and beyond Canada — finally and decisively shifted in the Spring of 2016. BMO's chief economist co-authored a report likening the markets in Toronto and Vancouver to "wildfires," emphasizing that "There is no doubt that heavy-duty buying from abroad is a major factor," a "crucial player."[60] CIBC's chief economist called for a flipping tax on foreign investors as "an effective way to remove the most problematic element of foreign investment in Canadian real estate."[61] The 'stress tests' of banks' balance sheets began to clarify the catastrophic risks of any price declines, and Ian Young reported on the "conga line of bankers" demanding government intervention to protect them from the consequences of the competitive market rise they helped fuel. And only a few months after the Premier lampooned calls for goverment intervention as a "great leap forward" unsuitable for a "free market ... capitalist society where people can invest from around the world,"[62] the Government of British Columbia began a series of dramatic policy shifts. Policy had already shifted at the municipal level in the City of Vancouver, and at the federal level with the end of a long-running Conservative parliamentary majority in October, 2015. As early as the summer of 2015, Vancouver Mayor Gregor Robertson had begun to advocate a tax on the city's vacant, investor-held homes (by one estimate, some 10,000 units) as one way of easing a housing shortage marked by stubborn, near-zero rental vacancy rates, and in early 2016 the new federal government began restoring the downgraded audit and enforcement capabilities required for the Canada Revenue Agency to investigate the open secrets of transnational money-laundering through some of the planet's most expensive residential real estate.[63] But Mayor Robertson, and all other observers, fully understood the symbolism of the vacancy-tax proposals: no municipality could impose any tax without first getting Provincial authority — which seemed a

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[58] Quoted in Tomlinson (2016), "Tricks of the Trade," *op. cit*.

[59] Orthodox neoclassical economic theory portrays market prices of financial assets as the optimal distillation of all available information among buyers and sellers calculating the net present value of future expectations regarding the economic conditions affecting those assets; hence any transaction in which willing, fully-informed buyers and sellers agree on a price must be understood as inherently rational and thus "non-bubble." Bubbles, defined as irrational and unsustainable price run-ups, can only be identified retrospectively after systemic exogenous shocks that change the nature of rational expectations about future conditions influencing asset values.

[60] Cited in Ian Young (2016). "For Bankers, the Smell of Real-Estate Profit in Vancouver is Being Overwhelmed by Whiff of Something Else." *South China Morning Post*, June 22.

[61] *Ibid.*

[62] *Hansard*, Farnworth and Clark, op. cit., April 13, 2016, p. 12149.

[63] The 'most expensive' assertion is based on Demographia calculations, *op. cit*, as well as comments by Thomas Davidoff and other panelists at a symposium on housing affordability held at the University of British Columbia, May 24, 2016.

near impossibility, judging from more than a decade of clear and consistent policy actions and justifications.

Yet if Provincial policies were the last to shift, they were in crucial ways the most fundamental and disruptive. In late June, 2016 the investigation of the shadow-flipping scandal bore fruit: "Current conditions in British Columbia's real estate market, in particular a prolonged period of extreme price escalation, are extraordinary," began the report of the Independent Advisory Group; "They are attracting attention locally and globally."[64] The Advisory Group's analysis of the industry's flawed self-regulatory structure culminated in dozens of recommendations directed to industry representatives and public authorities. In a surprise move, Premier Christy Clark and Finance Minister Mike de Jong held a press conference and announced the end of self-regulation. "[T]he real estate sector has had 10 years to get it right on self-regulation, and they haven't," Clark told reporters, outlining a series of responses to the Advisory Group's recommendations. In addition to "dual agency" (where a Realtor acts as both agent and seller of a property) and increases in the maximum fines for Realtors and brokerages, all regulatory and enforcement authority was stripped from the Real Estate Council of B.C. and vested in a strengthened government Superintendent of Real Estate. In response to reporters' questions on the "government's seeming unwillingness to address the impact foreign capital is believed to be having on the market," Clark replied: "Everything is on the table. ... You will see more action on affordability and keeping that dream of home ownership alive for the middle class in the coming weeks and months."[65]

Few anticipated what would actually be on the table. Clark had convened a rare summer session of the Legislature to address housing affordability — and to alter the Charter of the City of Vancouver to allow the municipality, if it so chose, to impose a vacancy tax; crucial details of implementation and enforcement were devolved to the municipality.[66] The Charter amendment came packaged with other measures in Bill 28, the *Miscellaneous Statutes (Housing Priority Initiatives) Amendment Act, 2016*. The bombshell was an amendment to the Property Transfer Tax Act, imposing an additional 15 percent levy on transfers of residential properties in the Greater Vancouver regional district (excluding the treaty lands of the Tsawwassen First Nation)

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[64] Independent Advisory Group on Conduct and Practices in the Real Estate Industry in British Columbia (2016). *Report of the Independent Advisory Group on Conduct and Practices in the Real Estate Industry in British Columbia*. Victoria, BC: Office of the Superintendent of Real Estate.

[65] Quoted in Cassidy Olivier and Joanne Lee-Young (2016). "Real Estate's Era of Self-Governance Coming to an End." *Vancouver Sun*, June 30, A7.

[66] These details transformed the Province's grant of bylaw authority into a poison pill for the City of Vancouver. Mayor Robertson had emphasized that no vacancy tax could work without a deal to gain access to closely-guarded Provincial datasets — to identify second homes declared in the Province's existing Home Owner Grant property tax abatement program, or to identify primary residences through drivers' licenses and other data — but the Charter amendment involved something else entirely. Section 621 of Bill 28, "Entering Onto Residential Property," includes a series of invasive yet contradictory provisions for "an authorized employee of the city or other authorized person" to determine "the status of the property and whether the property is subject to the vacancy tax," and yet: "An authorized employee of the city or other authorized person may enter into a residential property only if the individual occupying the property, if any, consents." "Let's just take a second here and think about this," MLA David Eby cautioned in legislative debate, describing the bizarre, surveillant scenario of inspectors looking in the windows of properties trying to ascertain vacancy 'status.' The obvious alternatives — using the income tax system to identify vacant properties — were pointedly ignored. See also Rob Shaw (2016). "Vacancy Tax is a Numbers Game: Vancouver Needs Provincial Government to Share Key Data." *Vancouver Sun*, July 25, A1, A6.

where either the "transferee or purchaser is a foreign national as well as certain corporations or trusts that involve foreign nationals."[67] Part of the revenues generated by the tax are to be allocated to a newly-created Housing Priority Initiatives Fund for provincial housing and rental programs.[68] The tax was set to be imposed for any transaction closing on or after August 2, 2016 — a lightning-fast deadline that spurred Realtors to advise their clients to spend whatever it took to get deals closed by the end of business on Friday, July 29, only five days after the legislation was introduced.[69] Bill 28 includes provisions allowing Cabinet revision (without further Legislature review) of the surcharge rate between a minimum of 10 percent and a maximum of 20 percent, and extension of the tax to other regions of the Province if deemed necessary to deal with locational shifts in transnational investment activity.

Foreign People vs. Foreign Capital

Bill 28 exposes the tensions of public policy in a world of globalizing urban regions interconnected by capital investment, while creating its own blend of contradictions and uncertainties. The legislation targets real-estate *transactions*, relying on a regulatory classification of the individuals (and the individuals controlling corporate entities) buying properties, with some individuals categorized as "foreign nationals." In other words, the legislation imposes an additional tax on foreign *people*, not foreign *capital*. Hence the legislation codifies all of the 'blaming foreigners' scapegoating that public officials have warned against for many years — and that Finance Minister de Jong had explicitly voiced to reporters only two months earlier.[70] The policy, moreover, hits many of the wrong targets. Corporate recruiters have immediately understood that middle-class professionals arriving through skilled-worker immigration provisions on work permits will face yet another hurdle in gaining entry to an already-overheated market. But the truly wealthy who obtain expedited Permanent Resident status through Canada's Investor Class immigration programs[71] will be unaffected; so will offshore investors who already own property, as well as the significant number of citizens and

[67] Hansard (2016). Finance Minister Mike de Jong, *Debates of the Legislative Assembly of British Columbia*, Vol. 40, No. 7, July 25, morning, p. 1,337.

[68] Notably, however, the word "affordable" is never used in the legislation when referring to "housing." In legislative debates, Minister de Jong has clarified that the Fund will allow partnerships with for-profit corporations as well as non-profit societies and municipalities, and could include mixed-use developments with market-rate housing.

[69] In one case a Realtor arranged a transnational 'Hail Mary' pass to speed up a transaction scheduled to close in November in order to meet the July 29 deadline. In January, 2016 Shinna Zhang and her husband moved to the Vancouver region from London, entering Canada on her husband's work permit; they later contracted to buy a Cdn $850,000 townhouse in Richmond from a Canadian owner with children who move back and forth between Richmond and China. Neil Zhu, the buyers' agent, arranged to have the seller fly back from China in an attempt to speed up the closing process to seal the deal. Jeff Lee (2016). "Foreign Buyers Rush to Beat New Tax Deadline." *Vancouver Sun*, July 30, A15.

[70] Announcing a Provincial move to restore the policy of collecting data on the citizenship status of property purchasers in May, 2016, de Jong had emphasized a "bias against singling out foreign investment for a separate or a punitive tax. We work awfully hard to attract people to come here, to invest here, to create jobs here." Quoted in Vaughn Palmer (2016). "de Jong Was Singing a Different Tune in May." *Vancouver Sun*, July 27, A11.

[71] Canada's federal investor-immigrant program was ended in 2014, but Quebec's program continues, and offers immediate Permanent Residency status in return for a Cdn $800,000 investment in a five-year government bond. Quebec's program is widely perceived as the easiest entry compared with wealth-driven immigration programs in the U.S., U.K., Australia, and New Zealand. An estimated 80 percent of investor immigrant arrivals in Quebec move immediately to the Toronto or Vancouver metropolitan regions.

Permanent Residents who report poverty-level incomes while living in multi-million dollar properties.[72] Indeed, given the magnitude of global capital flows, the same tax that local middle-class and working-class households would perceive as substantial might look very different to other, wealthier audiences at the global scale: the effort is a "losing battle," writes a *Globe & Mail* observer from the Ottawa Bureau: "The Vancouver and Toronto real estate markets have become collateral damage in an unprecedented global flight of capital."[73] Realtors and developers immediately warned that the rigid August 2 deadline would create market 'chaos' for contracts in progress and pre-sale condo agreements,[74] while others noted that the pre-sale market itself remains an easy speculative loophole. Transnational investors can continue to buy pre-sale condos, hold them until the project is nearly complete, and then flip to a final buyer: the 'foreign national' designation only kicks in for a final buyer registering at the land title office.[75] The Bill includes no provisions closing the "bare trust" loophole for large commercial transactions, an existing widespread evasion that has been actively encouraged as a way of

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[72] UBC Geography Professor Daniel Hiebert has documented a number of census tracts in the Vancouver region with unusually high shares of low-income households that also contain large numbers of owners of extremely expensive residences. Measured at the census tract scale, in other words, high-poverty areas appear not just in the familiar inner-city Downtown Eastside neighborhood, but also in extremely expensive housing submarkets like parts of Shaughnessy-Arbutus Ridge, the southern edge of Oakridge, and a large section of north-central Richmond. Many analysts attribute these patterns to the phenomenon of dual-passport families with assets and ongoing business interests overseas. Albert Lo, head of the Canadian Race Relations Foundation, has called for the Canada Revenue Agency to more carefully examine the reported incomes of immigrants who "park large amounts of money" in Canadian real estate and then "go back to work in China" or elsewhere. Quoted in Douglas Todd (2015). "Thousands of Metro Vancouver Owners Avoiding Taxes." *Vancouver Sun*, September 26. See also Daniel Hiebert (2015). *Ethnocultural Minority Enclaves in Montreal, Toronto, and Vancouver*. IRPP Study No. 52. Quebec: Institute for Research on Policy, p. 35.

[73] Barrie McKenna (2016). "BC's New Tax No Quick Fix for Housing." *Globe & Mail*, July 30, B1, B14. McKenna cites the consensus estimate of US$1 trillion flowing out of China in 2015, and then remarks: "Canada is an attractive destination for that money — a safe haven with a weakened currency and strong property rights. Paying $1 million (Canadian) for a bungalow might seem outrageous to most Canadians, but it could be a bargain to a buyer from Shanghai, even at $1.15 milion (the price of the house including the new 15-percent land-transfer tax). Throw in the low-interest rate fuel that continues to drive the market, and it's a powerful mix."

[74] The Urban Development Institute provided initial estimates that 3,000 pre-sale deals in progress, mostly condominiums, would be hit by the new tax. Rob Shaw (2016). "Foreign-Buyer Tax Will Not be Changed, Premier Says." *Vancouver Sun*, July 28, A7. The research firm Urban Analytics estimated 2,300 pre-sale units valued at $1.25 billion at risk. A subsequent email survey in early August by the Real Estate Board of Greater Vancouver suggested 427 deals were likely to collapse, which, assuming the average foreign-buyer tranaction value of $947 thousand, could translate to about $404 million. Strangely, the industry's response to the cascading consequences of the sudden tax measure stood in sharp contrast to the decades of assurances that transnational investment was only affecting a tiny 'niche' that constituted just a tiny-percentage share of the total market. The fundamental insight of housing market theory developed by the economist Homer Hoyt in the 1930s, however, reminds us of the importance of "filtering" and "vacancy chains" in both declining and rising markets. Competition and bidding wars for top-tier properties cascade to middle- and lower-status units, such that a seemingly small external infusion can reshape much of the regional market. The phrase used by ReMax's regional executive vice president to describe the collateral damage of buyers' and sellers' withdrawn offers because of the 15 percent tax — "It's a domino effect" — applies just as well to the decade of hedge-city house-price escalation. Quoted in Katia Dmitrieva and Natalie Obiko Pearson (2016). "Deals Scuttled by Real Estate Tax Could Top $400M Mark." *Vancouver Sun*, August 9, B10.

[75] Suzanne Lazaruk (2016). "Property Transfer Tax Could Disrupt Deals Yet to Close." *Vancouver Sun*, July 27, A1, A5. Other possibilities were quickly explored by entrepreneurial agents. Within a day of the introduction of Bill 28, a top-selling Realtor sent a mass email advising clients to sell pre-sale contracts to friends or family members with Canadian citizenship or Permanent Residency. Jeff Lee (2016). "Tips on Dodging Transfer Tax Trigger Investigation of Realtor." *Vancouver Sun*, July 28, A1, A6.

avoiding property transfer tax liabilities.[76] The "targets" of the tax — high net-worth individuals with access to specialized professional legal and financial advice — are precisely those best positioned to work to avoid the fee, thereby presenting a choice between a comprehensive Provincial enforcement infrastructure or yet another addition to B.C.'s legendary underground economies.[77] The tax will also have no effect on the massive capital flows that have *already* distorted the market — by the Province's own reckoning, more than Cdn $1 billion in transnational capital was invested in residential property in just a five-week period in June and early July, 86 percent of it in the Lower Mainland.[78] Moreover, legal analysts have observed that, to the degree that homes are explicitly purchased for investment purposes, then a separate 'foreign national' taxation regime is likely to be deemed a discriminatory violation of NAFTA and other trade agreements.[79]

The public response to Bill 28 has been swift. A speedy online poll by the Angus Reid Institute revealed that 90 percent of Vancouver-area adults supported the 15 percent property transfer tax on foreign purchases. "We knew that as far back as a year ago, and probably even further back, people in this region were clamouring for government action on this issue," said Shachi Kurl, Angus Reid Executive Director; but the government had been insisting "there was no story here"

[76] A trust is created, a property is placed in the trust, and then the *benefits* of the trust are bought and sold — avoiding triggering the property transfer tax. "Can the Minister tell me whether there is anything about closing the bare trust loophole in this bill," asked MLA David Eby in the debates over Bill 28; "With respect to the general taxation, the property transfer tax provisions," Finance Minister de Jong replied, "we are collecting the data, analyzing it. This legislation doesn't include changes that relate to the original property transfer tax. There's a distinction, though, because with respect to the additional tax, there are specific provisions that do deal with the creation of a trust and the implications of having a foreign national trustee or a foreign national beneficiary." Eby proposed an amendment to close the loophole on the regular transfer tax, but it was defeated along with every other proposed amendment. Responding to Eby's proposal for a detailed anti-evasion provision modeled on Ontario legislation, de Jong replied: "I don't want to quibble about terminology. But the decision around bare trusts was, I am told, a very purposeful one" that involved explicit decisions by previous governments of varied political parties. Hansard (2016). David Eby and Mike de Jong, *Debates of the Legislative Assembly of British Columbia*, House Blues [draft transcript], Thursday, July 28, afternoon.

[77] Section 2.04 of Bill 28 includes "anti-avoidance" rules in an attempt to discourage sequential transactions designed for tax evasion. Enforcement, however, will require the same commitment to monitoring that, until the Spring of 2016, the Provincial government maintained in its steadfast *refusal* to monitor real estate practices or gather relevant market data. Section 2.04 will also not address the creation of other 'markets.' Lindsay Tedds, an economist at the University of Victoria, describes it this way: "...it ignores the fact that many 'foreign' buyers, or at least their spouses or children, have already achieved permanent residency or citizenship status. The tax will not apply to them and this status will simply lead to abuse of this status for the pure purpose of tax avoidance by others who are not so lucky. Permanent residency or citizenship will become a commodity for the purpose of tax avoidance." Lindsay Tedds (2016). "The Foreign-Buyer Tax Leaves Us With the Wrong Kind of Speculator." *Globe & Mail*, July 30, B4. Such possibilities are by no means hypothetical. MLA David Eby, who represents West Point Grey near the Vancouver campus of UBC, specifically asked the Finance Minister whether the tax would apply to the case of a student who bought a Cdn $31 million home in the neighborhood, with no apparent source of income. Hansard (2016). David Eby and Mike de Jong, *Debates of the Legislative Assembly of British Columbia*, House Blues [draft transcript], Thursday, July 28, afternoon. Investigating the $31 million student mansion, journalist Douglas Todd noted that Bloomberg News had recently discovered that CMHC was "especially interested in how the red-hot housing markets in Toronto and Vancouver are partly fuelled by foreign students, some of whom live in multi-million dollar homes near the UBC campus." Douglas Todd (2016). "Not Just an Education." *Vancouver Sun*, May 21, F5.

[78] Office of the Premier (2016). "Taking Action on B.C.'s Housing Market." Press Release, July 25. Victoria, BC: Government of British Columbia.

[79] Barry Appleton (2016). "BC's NAFTA-Defying Property Tax." *National Post*, July 29, FP7.

in response to a June 2015 poll showing "people were screaming for government action."[80] And yet the fundamental design of Bill 28 — categorizing *people* as "foreign nationals" for differential tax treatment, instead of carefully monitoring *capital* — pushes public discourse in deeply regressive, repressive directions. The 90-percent approval rating notwithstanding, Toronto attorney Rocco Galati, a former tax specialist at the federal Department of Justice, calls the measure "clearly offensive on its face," and plans a challenge under the antidiscrimination section of Canada's Charter of Rights and Freedoms; Larry Wong, a Vancouver immigration attorney working to find clients for a test case for Galati, portrays the tax as emerging from "the same mindset that has fuelled Donald Trump's drive for the presidency,"[81] and once again public policy on a housing market issue has become fatally intertwined with comparisons to the racist Head Tax of 1885 and the exclusionary Chinese Immigration Act from 1923 to 1947.[82]

What has been most remarkable in all of this has been the careful, deliberate avoidance of readily-available alternatives — in particular, a rather extraordinary January 2016 joint policy proposal endorsed and signed by forty-seven economists at the University of British Columbia and Simon Fraser University. Led by Thomas Davidoff at UBC's Sauder School of Business, the proposal for a "BC Housing Affordability Fund" (BCHAF) was much more carefully focused on *global capital* rather than 'foreign people.' A new 1.5 percent annual surcharge would be levied on the existing property tax rates on residential real estate, with a series of exemptions designed to include nearly all resident owner-occupiers. Instead of an immigration or citizenship-based categorization, the BCHAF proposed a dollar-for-dollar reduction of the surcharge for every payment of Provincial and Federal income taxes. The entire goal is to secure a funding stream from "property owners with limited residential or economic ties to B.C.,"

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[80] Quoted in Jeff Lee (2016). "Poll Shows Enormous Support for New Foreign Buyers Tax." *Vancouver Sun*, July 29, A1, A4.

[81] Peter O'Neil (2016). "Tax on Foreign Homebuyers Under Fire." *Vancouver Sun*, July 30, A14. As Wong told O'Neil: "The new normal is the Donald Trump new normal of taking action according to one's feelings — 'Oh, these foreigners, their money is not clean,' based on their feeling that 'How could one make so much money or pay for such over-valued real estate? ... I think the tax shows disrespect. Foreign buyers who buy Vancouver properties are not criminals." Wong's mention of Donald Trump, however, is deeply ironic given the uniquely transnationalized nature of Vancouver real estate — as well as the fact that Trump long ago ceased being a *developer* in order to focus on being a *media brand*. Trump licenses his name to real developers, and Vancouver's Trump Tower is being built by Joo Kim Tiah. Tiah proudly shook hands with the Donald at the project's announcement in June, 2013, and told reporters of his confidence in working with Trump because of their shared experience of growing up with the pressure of wealthy parents' expectations. Tiah is the eldest son of one of Malaysia's wealthiest Chinese families, Datuk Tony Tiah Thee Kian and Datin Alicia Tiah, of the TA Group. "As the oldest son, there's a lot of expectation," Tiah told a reporter; "There was pressure from day one." Quoted in Denise Ryan (2013). "Lonely at the Top, But Loving It." *Vancouver Sun*, September 28, C1, C2. The smiling Tiah-Trump handshake took on somewhat different optics after Trump's pursuit of anti-immigrant U.S. Republican primary voters. After Trump called for a "total and complete shutdown of Muslims entering the United States," Vancouver Mayor Robertson added his voice to those of 50,000 who signed a petition demanding that Trump's name be removed from Tiah's development. Robertson wrote and publicly released a letter to Tiah, emphasizing that Trump's ideas were entirely inconsistent with Vancouver's "steadfast commitment to diversity, equality, and freedom from discrimination and hatred," but of course the City had no role or leverage over a private branding and trademark contract. Tiah declined all media requests. Tiffany Crawford (2015). "Mayor Calls for Removal of Trump Brand from Tower." *Vancouver Sun*, December 17, A9.

[82] A representative Vancouverite's letter to the editor, to the *Globe & Mail*: "...taxing foreigners (primarily Chinese) raises racist overtones and the ghost of the head tax imposed on Chinese immigrants beginning in 1885. It wasn't so long ago that B.C. Premier Christy Clark was apologizing for the head tax, and yet here we are with a new version." Thomas Ciz (2016). "Dubious Objective." Letter to the editor, *Globe & Mail*, July 30, B4.

making the region "a less attractive target for investors who wish to avoid taxation or park cash in residential real estate."[83] The proposal also addressed the vacant homes controversy, by allowing non-occupant investors to offset BCHAF contributions only with rental revenues reported to the Canada Revenue Agency. By imposing a smaller annual surcharge instead of a transaction-based levy, and by crafting exemptions in order to shield owners, residents, and not-yet-landed immigrants who are actively participating in the local economy, the BCHAF sought to alter the wider market incentives for using residential property to store capital.

The forty-seven economists' proposal was completely ignored in the Provincial legislation, and indeed the fundamental differences between the BCHAF and Bill 28 were deceptively presented in terms of crass retail politics: "Oh, well, I look forward to hearing how your 2 percent tax proposal stacks up against our 15 percent tax proposal," Finance Minister de Jong said to the Opposition in the Legislature. In response, MLA David Eby highlighted the fundamental policy paradox created by refusing to distinguish between *people* and *capital*:

> "To pretend like a 15 percent tax is more significant when it doesn't deal with the 10,000-plus vacant condos linked to international investors like Laurence Fink .... I think it's fair to say this measure doesn't go where it needs to go, which is to follow international money, including the money that's already in our housing market.
>
> Again and again in his speech, the minister referred to international capital, but the bill in front of us does not talk about international capital. It talks about international people. It is going to capture people in the immigration process who have moved to Metro Vancouver, who are starting a life, who are paying taxes, who are working, who are not citizens, and it will not capture any of the international speculators who have dumped money into Metro Vancouver with impunity for years."[84]

The distinction between the "foreignness" of *people* versus *capital* will be crucial as B.C.'s sudden policy pivot takes hold in the Vancouver region, in other cities exploring policy options to negotiate local and transnational housing markets, and in the varied origin communities for migration and investment. As of this writing, initial evidence of the local market effect of the tax is incomplete and limited by the small-numbers bias of the typically slow month of August. But private MLS figures for the first two weeks of the month show a dramatic slowdown — only 15 sales of detached single-family homes on the West Side of Vancouver (an 80 percent decline from the corresponding period the previous year), and just 12 sales in Richmond (an 86 percent decline). As prominent as the market shift, however, has been the shift in discourse. After a decade of denial that offshore investment played any significant role in the market, now the foreign transaction tax is reponsible for a market that has "frozen solid"; a bold front-page *Vancouver Sun* story, "Summer Slump," quotes a local Realtor's assessment: "The offshore tax just put on the brakes ... The offshore buyers became a huge portion of the market. They were

[83] Thomas Davidoff et al. (2016). *Policy Proposal: B.C. Housing Affordability Fund*. January 18. www.housingaffordability.org Vancouver: Sauder School of Business, University of British Columbia.
[84] Hansard (2016). David Eby, *Debates of the Legislative Assembly of British Columbia*, House Blues [draft transcript], July 26, afternoon.

the driving force."[85] The discourse is more ambiguous from other vantage points. In the P.R.C., "ground zero for the foreign money that has poured into a frenzied housing market," reports the *Globe & Mail*'s Nathan Vanderklippe from Beijing, "the B.C. government's unexpectedly severe response has stoked a fury that will not soon be resolved — even if few believe the buying will stop."[86] Vanderklippe quoted agents and buyers expressing 'anger' and 'betrayal,'[87] but also noted the powerful effects of compound interest and exchange rate fluctuations, which have left many buyers up 40 percent over the past year; an agent at Beijing's Global House Buyer brokerage said that "only a very small percentage" of clients had backed out of deals.[88] The local dynamics of a tax policy shift must be seen not only in terms of individual buyers and sellers making decisions, but also in the context of the global perspectives of hedge fund CEOs like Larry Fink, central bankers like Stephen Poloz and Mark Carney, and transnational entrepreneurial capitalists like Beijing's Global House Buyer and Richmond's New Coast Realty.

A New Vancouverism?

A decade ago, the urban design innovations showcased in the city's downtown cluster of new condominium towers began to make 'Vancouverism' famous among planners, architects, investors, and journalists around the world.[89] Today, Vancouver's rising prominence on the world stage as a 'Hedge City' — a site for capital investment in property as insurance against an uncertain future — seems to be creating a new kind of Vancouverism that draws attention from investors, central bankers, financial analysts on Bay Street, Wall Street, and throughout the OECD, and of course Larry Fink, the CEO of the world's largest wealth-management firm who extolled the value of Vancouver condos as a global investment class. All of these processes require a re-appraisal of how we think about Vancouver, about what makes it unique, and about more general theories of cities, urbanism, and public policy. "[E]verything about the real estate market in British Columbia and particularly the Metro Vancouver area has been somewhat unprecedented," B.C. Finance Minister de Jong told reporters as the Province's new tax on "foreign nationals" became law on July 28, 2016, admitting that the Government wasn't really sure of the expected impacts.[90] The metropolitan region may very well be the Western world's leading edge of integration into an accelerating web of local, national, and transnational ties -- a constellation that urbanists now describe as a 'space of flows' in a world that has recently crossed the 50-percent-urban threshold.[91] This era of 'planetary urbanization' challenges our

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[85] Quoted in Sam Cooper (2016). "Summer Slump." *Vancouver Sun*, August 25, A1, A3.
[86] Nathan Vanderklippe (2016). "Vancouver Real Estate Tax Strikes a Nerve With Chinese Home Buyers." *Globe & Mail*, August 16, A1, A6.
[87] Liu Fei, China's Consul General in Vancouver, also challenged the tax: "Why now? Why this rate? What's the purpose? Will it work?" she asked a *Sun* reporter; and yet she also noted, "I'm not sure even a 50 percent tax would solve the problem" of helping young people afford housing. Quoted in Natalie Obiko Pearson (2016). "Chinese Envoy Raps Tax on Foreign Buyers." *Vancouver Sun*, August 13, E3.
[88] Vanderklippe, "Vancouver Real Estate Tax," p. A6.
[89] *The Economist* declared Vancouver the world's 'most livable city' in 2002, and then an article in 2005 in *The New York Times* saw the first mainstream media use of the term "Vancouverism." See *Monu* magazine (2010). "Vancouver Connection. *Monu*, October.
[90] Quoted in Rob Shaw (2016). "Liberals Pass Foreign Buyer Tax Into Law Despite Mysteries Ahead." *Vancouver Sun*, July 29, A4.
[91] See Neil Brenner, ed. (2014). *Implosions/Explosions: Towards a Study of Planetary Urbanization*. Berlin: Jovis. The 'space of flows' perspective on urbanization was developed by Manuel Castells (2001). "Space of

traditional understandings of cities as objects with clearly-defined boundaries between inside and outside, here and there, local and global. Planetary urbanization in the space of flows, in other words, requires us to rethink everything we've learned about measuring things that happen *within* and *between* cities. In turn, this means that one of the seemingly simplest ways of measuring what happens and where — the map — requires an entirely different way of thinking about locations, distances, and influences. Vancouver, at the center of a region the science historian George Dyson once called the 'Edge of the World'[92] and now widely recognized as the most Asian city outside Asia, provides a particularly clear view of the present and future of local city processes interacting with the planetary networks of financial markets, central banks, and hedge funds. Yet Vancouver's view of the financial futures of the Pacific Century is also a vantage point on the future of the past: one of the world's most highly-capitalized real estate markets is built on the unceded, ancestral territories of the Musqueam, Squamish, and Tsleil-Waututh peoples, creating a layered history of dispossessions that are just now entering a new era of reconciliation after the landmark 2014 *Tsilhqot'in Nation v. British Columbia* judgment at the Supreme Court of Canada.[93]

The First Annual Bell Forum

With the generous support of Larry Bell, an alum of the Department of Geography and the Urban Studies Program at the University of British Columbia, we are pleased to convene a Forum of distinguished experts to explore Vancouver's relation to global capital flows. We will explore three sets of questions:

1. ***How are key cities in the world economy becoming sites of investment as insurance against an uncertain future?*** What is unique about Vancouver's experience as a hedge city? What lessons can Vancouver learn from the experience of London, Singapore, Hong Kong, New York, and other cities? How do emerging trends in Vancouver provide lessons for other cities?

2. ***How can we measure and map the complexity of the hedge city?*** What does "foreign ownership" mean in an era when more and more families are living transnational lives? How can recent changes and longer-term trends be measured in light of the absence of long-form data from the 2011 Census of Canada, and the restoration of the long-form for 2016? What are the prospects for a longitudinal, micro-data Canadian counterpart to the American Housing Survey, which provides essential information for home-builders, investors, and policymakers in the United States? How would a Canadian version of the detailed lending data from the U.S. Home Mortgage Disclosure Act (HMDA) and/or the Government

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Flows, Space of Places: Materials for a Theory of Urbanism in the Information Age." Lecture sponsored by Skimore, Owings & Merrill, 13 April. New York: Columbia University. Reprinted in Richard T. LeGates and Frederic Stout, eds. (2016). *The City Reader, Sixth Edition*. New York: Routledge, 231-240.

[92] George P. Dyson (1997). *Darwin Among the Machines: The Evolution of Global Intelligence*. Reading, MA: Addison-Wesley. The Preface, p. ix, titled "Edge of the World," describes Dyson's years spent on the shore of Burrard Inlet in the early 1970s.

[93] "...what makes Aboriginal title unique is that it arises from possession *before* the assertion of British sovereignty, as distinguished from other estates such as fee simple that arise *afterward*." *Tsilhqot'in Nation v. British Columbia*, 2014 SCC 44, [2014] 2 S.C.R. 256.

Sponsored Enterprise (GSE) Public-Use Database help us to monitor short- and long-term trends in housing and debt?

3. ***How does the rise of the hedge city present new challenges for planning, public debate, and public policy?*** What will the legal and regulatory classification of “foreign” individuals involve, and how is it likely to interact with regional discussions of immigration, ethno-racial and cultural change, and inequalities of wealth and class? How can communities and policymakers at different levels of government adapt and negotiate conflicts over taxation, public services, and inequality?

MAPPING THE HEDGE CITY: VANCOUVER AND GLOBAL CAPITAL

The First Annual Larry Bell Urban Forum

Friday, September 23, 2016, 5:00-8:30 PM

Simon Fraser University Harbour Centre, 515 West Hastings Street, Vancouver,
Room 1900, Fletcher Challenge Theatre

Confirmed Presenters and Panelists

Chair and Host:

Andy Yan, Acting Director, City Program, Simon Fraser University, author, *Ownership Patterns of Single Family Home Sales on the West Side Neighborhoods of the City of Vancouver: A Case Study*. (ayan604@gmail.com)

Keynote Lecture:

David Ley, F.R.S.C., Canada Research Chair in Urbanization and Cultural Geography, Professor, Department of Geography, The University of British Columbia, author, *Millioniare Migrants: Trans-Pacific Life Lines*, and "Global China and the Making of Vancouver's Residential Property Market." (david.ley@geog.ubc.ca)

Panel Presentations and Discussion:

Moderator:

Meg Holden, Associate Professor of Urban Studies and Geography, Simon Fraser University (mholden@sfu.ca)

Panelists:

Manuel Aalbers, Associate Professor of Social and Economic Geography, University of Leuven, author, *The Financialization of Housing: A Political Economy Approach*. (manuel.aalbers@kuleuven.be)

Angie Y. Chung, Associate Professor of Sociology, State University of New York at Albany, author, *Saving Face: The Emotional Costs of the Asian Immigrant Family Myth*. (aychung@albany.edu)

Melissa Fong, Ph.D. Candidate in Planning and Geography, University of Toronto, author, "What Are We Going to Do About Vancouver's Chinatown?" (melissafong@gmail.com)

J. Rhys Kesselman, Professor, Canada Research Chair in Public Finance, School of Public Policy at Simon Fraser University, and Co-Editor, *Dimensions of Inequality in Canada*. (kesselman@sfu.ca)

Dallas Rogers, Lecturer in Social Sciences, Heritage, and Tourism, Western Sydney University, author, *The Geopolitics of Real Estate*. (D.Rogers@westernsydney.edu.au)

Ian Young, Vancouver correspondent and former International Editor, *South China Morning Post,* columnist, *The Hongcouver.* (ian.young@scmp.com)

Dinner:

...for Panelists, Larry Bell, and other Distinguished Guests: **Hawksworth Restaurant**, Bel Private Dining Room, Rosewood Hotel Georgia, 801 W. Georgia Street, 604 673 7000.

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The **BELL URBAN FORUM** is made possible by a generous donation by **Larry Bell** to the Department of Geography at the University of British Columbia. A graduate of the Department of Geography and the Urban Studies Program at UBC, Larry Bell has made extraordinary contributions to Vancouver and British Columbia through a long and distinguished career. He has served as Chair and CEO of B.C. Hydro, Deputy Minister of the Government of British Columbia, Chair of the UBC Board of Governors, and as Board Member or Chair for the Canadian Chamber of Commerce, the Vancouver Board of Trade, the Conference Board of Canada, the Vancouver Hospital Foundation, and the B.C. Transplant Society Board of Trustees. He received the Order of British Columbia in 2007.

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