

**PROCEEDINGS AT HEARING  
OF  
FEBRUARY 18, 2021**

**COMMISSIONER AUSTIN F. CULLEN**

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**February 18, 2021**

**Via Videoconference**

**(PROCEEDINGS COMMENCED AT 9:30 A.M.)**

THE REGISTRAR: Good morning. The hearing is now resumed. Mr. Commissioner.

THE COMMISSIONER: Thank you, Madam Registrar. Yes, Ms. Patel.

MS. PATEL: Thank you, Mr. Commissioner. We have two sets of witnesses today who will be addressing the issue of real estate prices in British Columbia, particularly the Lower Mainland. Our first witness is the Deputy Chief Economist for the Canadian Mortgage and Housing Corporation, Dr. Aled ab Iorwerth, and then after Dr. ab Iorwerth's evidence we'll be hearing from a panel of witnesses on housing prices, more particularly in the Lower Mainland.

And just to let you know on timing, it's my goal to hand things over to the second panel which Mr. Martland will be leading at about 10:45. That's my aim.

THE COMMISSIONER: All right. Thank you, Ms. Patel.

MS. PATEL: Okay. Madam Registrar, I believe that Dr. ab Iorwerth has indicated that he would like to be affirmed.

1 **ALED AB IOWERTH, a**  
2 **witness for the**  
3 **commission, affirmed.**

4 THE REGISTRAR: Please state your full name and spell  
5 your first and last name for the record.

6 THE WITNESS: Sure. My full name is Aled ab  
7 Iorwerth. The first name is spelled A-l-e-d.  
8 The last name is spelled a-b I-o-r-w-e-r-t-h.

9 THE COMMISSIONER: Yes, Ms. Patel, thank you.

10 MS. PATEL: Madam Registrar, if you could please pull  
11 up Dr. ab Iorwerth's CV.

12 **EXAMINATION BY MS. PATEL:**

13 Q Dr. ab Iorwerth, you recognize this as the CV  
14 that you provided to the commission?

15 A I do.

16 Q I'll just go over very briefly some of your  
17 experience, relative experience, and  
18 qualifications. As I mentioned you are the  
19 Deputy Chief Economist with the Canadian  
20 Mortgage and Housing Corporation, which is a  
21 position you've held since 2016; is that right?

22 A Correct.

23 Q All right. And you have -- your experience  
24 includes acting as a Special Advisor to  
25 Assistant Deputy Minister at the Department of

1 Finance?

2 A Yes.

3 Q You were also Economic Advisor to the council of  
4 Canadian Academics?

5 A Academies, yes.

6 Q Oh, thank you. Academies, thank you. And  
7 there's much more experience here, but I don't  
8 have all day to go through all your work. I  
9 will note with respect to your work with the  
10 Canadian Mortgage and Housing Corporation that  
11 you supervised the research and authored a  
12 report which we'll be talking about today  
13 "Escalating Housing Prices in Canada"?

14 A Yeah, that's correct, yes.

15 Q Okay. And that was published in May of 2018; is  
16 that right?

17 A Yeah, around that time.

18 Q Thank you. And further to your qualifications,  
19 you have a PhD in economics from the University  
20 of Western Ontario?

21 A Yeah, that's correct.

22 Q You also have an executive masters in European  
23 and International Relations from the Amsterdam  
24 School of International Relations at University  
25 of Amsterdam?

1 A Yes.

2 MS. PATEL: All right. And, Madam Registrar, if we  
3 could please have this CV marked as the next  
4 exhibit. Sorry, Mr. Commissioner and Madam  
5 Registrar, you'll have to remind me the number  
6 of exhibits that we're at.

7 THE COMMISSIONER: I think we're at 633.

8 THE REGISTRAR: Yes, exhibit 633.

9 **EXHIBIT 633: Curriculum Vitae of Aled ab**  
10 **Iorwerth**

11 MS. PATEL: Thank you very much. We can take this  
12 down now. Thank you. Madam Registrar, could  
13 you please pull up exhibit 602, which is the  
14 overview report on Lower Mainland housing  
15 prices. I'm looking for page 45 in the PDF. If  
16 you could scroll down to 46. Thank you.

17 Q Dr. ab Iorwerth, this is the cover page of the  
18 report that we just mentioned, "Examining  
19 Escalating House Prices in Large Canadian  
20 Metropolitan Centres." That was published in or  
21 about May of 2018. Is this right?

22 A Yeah, that's correct.

23 Q Okay. Thank you. And the next set of questions  
24 I'm going to be asking you will be addressed at  
25 this and for now I'll ask, Madam Registrar, you

1                   can take this down, but if you could keep it at  
2                   hand. We'll be referring back to it from time  
3                   to time.

4                   What with respect to this report what was  
5                   the question that CMHC was asked to address?

6           A       Okay. So around 2016, probably towards the end  
7                   of 2016, Minister Duclos, who was the minister  
8                   responsible for CMHC at the time, sent a letter  
9                   to CHMC asking for a federal examination of the  
10                  reasons behind escalating house prices in  
11                  Canada's large urban areas, and he -- I mean, he  
12                  is of an academic background and he requested  
13                  that it be done in sort of in a thorough  
14                  academic -- to a thorough academic standard,  
15                  I'll put it that way.

16           Q       Can you provide some of the contextual  
17                   background to why this report was requested at  
18                   this time?

19           A       Sure. So -- well, there are probably multiple  
20                   reasons. The primary one was that houses were  
21                   really going up quite sharply in 2014, 2015 and  
22                   2016 and so I think that was the primary reason.  
23                   A potentially secondary reason was that there  
24                   was a new government roughly at the time and  
25                   housing had become a bigger policy priority for

1                   the new government. They wanted greater  
2                   understanding and background on the issues  
3                   relating to housing, and particularly on the  
4                   market side of housing.

5           MS. PATEL: All right. Madam Registrar, I'll ask if  
6                   you could pull up the report again, and I'm  
7                   looking now for page 61 of the PDF. Page 17 of  
8                   the study.

9           Q     Dr. ab Iorwerth, can you address what was the  
10                   time period that you were looking at in this  
11                   report?

12          A     So the specific instruction from Minister Duclos  
13                   was to look at the time period from 2010  
14                   onwards, so we obviously used historical data  
15                   before that period in order to form a benchmark,  
16                   but the particular interest was from 2010  
17                   onwards.

18          Q     I'm just going to interrupt for a moment.  
19                   I'd ask -- I think it would be helpful,  
20                   Madam Registrar, if you scrolled down so that we  
21                   could see figure 1. And if you can zoom in a  
22                   little bit. Thank you very much.

23          A     Right, so it's a little bit hidden in my zoom.  
24                   But I think that was in the first quarter of  
25                   2010 to the second quarter of 2016. The reason

1                   for the end date there is that it was roughly  
2                   towards the end of 2016 that we started working  
3                   on this project, so we used data up until that  
4                   period. So that's a practical reason. The  
5                   second reason is that it was around the end of  
6                   that year and into 2017 that various governments  
7                   started introducing policies to influence house  
8                   prices. I think it was in the early 2017 that  
9                   the foreign buyers tax was introduced in  
10                  British Columbia. So we didn't want to conflate  
11                  the impact of policies on house prices. We just  
12                  wanted to have a clear understanding of what was  
13                  driving house prices from 2010 to 2016.

14                 Q     Right. Figure 1 here indicates the average  
15                     price of a home in various metropolitan areas in  
16                     Canada, and the blue bar indicates the average  
17                     price of a home in the first quarter of 2010 and  
18                     the orange bar indicates the average price of a  
19                     home in the second quarter of 2016; is that  
20                     right?

21                 A     Yeah.

22                 Q     You mentioned -- and sorry, I'll just note there  
23                     that the orange bar, the second quarter of 2016  
24                     for Vancouver indicates an average house price  
25                     of just -- average home price of just under

1                   \$1 million at that time. And the orange bar, is  
2                   that representative of all housing classes, or  
3                   is that single-detached homes, condominiums?

4                   A    No, that's across all homes. The other nuance I  
5                   would say there is when we're talking -- and  
6                   maybe this will come up, which is why I'm  
7                   bringing it up now, is that when we're talking  
8                   about Vancouver, we're talking about the wider  
9                   region of Vancouver approximated by Metro  
10                  Vancouver, but there's a standard definition by  
11                  Statistics Canada, the census metropolitan area,  
12                  but it's average prices.

13                 Q    That was actually going to be my next question,  
14                   which is how did you select what's represented  
15                   in here as cities? How did you select these  
16                   metropolitan areas and if you could give us just  
17                   a little bit of an explanation of what's meant  
18                   by a census metropolitan area?

19                 A    Sure. So the cities listed there were  
20                   specifically asked for by Minister Duclos,  
21                   Vancouver, Calgary, Edmonton, Montreal and  
22                   Toronto. I guess there was a bit of debate  
23                   about why Ottawa-Gatineau was not included. I  
24                   believe it's bigger than Edmonton. But that was  
25                   a specific request from the minister.

1                   So the idea here of a census metropolitan  
2                   area is a concept developed by Stats Can, but  
3                   it's applied world-wide. The basic idea is to  
4                   look at an area that is economically meaningful,  
5                   so people will generally live, commute and work  
6                   within this area. So the city of Vancouver in  
7                   this case is only a small part of the Vancouver  
8                   CMA, but people may commute from Surrey or  
9                   Coquitlam to Vancouver. So Surrey and Coquitlam  
10                  are in the census metropolitan area. So  
11                  basically there's a difference between the  
12                  economic area and the area that's governed by a  
13                  municipal government in general.

14                MS. PATEL: Before we take the report down again I'll  
15                ask, Madam Registrar, if you could go to page 67  
16                of the PDF, page 23 of the report. I'm looking  
17                for figure 3. If you could zoom in just a bit,  
18                Madam Registrar, please, on that figure. That's  
19                good. Thank you very much.

20                Q    Dr. ab Iorwerth, if you could just address, this  
21                is -- figure 3 is titled "Median Price Growth By  
22                Dwelling Type (2010 to 2016)." Can you just  
23                tell us what the information is that we're  
24                looking at here?

25                A    Sure, so just for context, the data for dwelling

1 types, it's the type of housing. It's  
2 categorized into various subgroups,  
3 single-detached, semi-detached, rowhouses and  
4 apartments. So it basically talks to the  
5 structure, the physical building. Most of the  
6 categories are relatively small. The exception  
7 are single-detached, and what are called  
8 condominium apartments, I think in  
9 British Columbia strata. And so most housing  
10 activity takes place either in condominium  
11 apartments or single-detached housing. So in  
12 writing the report, my general approach is to  
13 start with the basic facts, the stylized facts,  
14 and one of the important facts that we would  
15 have to explain in the report or try to explain  
16 was the differential price growth between  
17 different housing types. You see there in  
18 Toronto and Vancouver it's the price of  
19 single-detached housing that has generally  
20 tended to go up a lot. Whereas the prices of  
21 condominium apartments has generally gone up but  
22 not that significantly. So that's an important  
23 point that we had to explain. The other point  
24 that comes across on this chart is that the  
25 escalating house prices were really concentrated

1 in Toronto and Vancouver. Price growth in other  
2 large areas was more moderate at the time.  
3 Calgary and Edmonton had not changed much over  
4 this period. Arguably they had gone up and down  
5 because of the oil price, but the price growth  
6 in Montreal was quite a bit more modest and more  
7 balanced between the different types of  
8 dwellings.

9 Q I'll just note that I'm not sure how clear this  
10 is on everyone's screen, but the median price  
11 growth for single-detached homes in Vancouver  
12 2010 to 2016 was somewhere it looks between 80  
13 and 90 percent, looking to be about 85 percent?

14 A Yeah. That's correct.

15 MS. PATEL: Madam Registrar, you can take that down  
16 for now. Thank you.

17 Q And is this as an economist who is concerned  
18 with housing prices, is that kind of price  
19 growth unusual?

20 A I think what's unusual is the persistent trend.  
21 You can get house prices going up quite a lot,  
22 but in a healthy market what you would expect is  
23 that supply comes on stream. Because of that  
24 the price growth would tend to moderate or not  
25 necessarily decline, but you wouldn't expect in

1                   a healthy market to see continuous strong upward  
2                   pressure on prices.

3           Q       And why might that be a concern from a policy  
4                   perspective?

5           A       Well, there are multiple issues. One is it, I  
6                   mean, it obviously becomes more expensive to  
7                   either rent or own a home, and so this puts  
8                   pressures on households' budgets and that has a  
9                   whole set of issues, that people can't, you  
10                  know, spend on food or what they want. There  
11                  are other more macro concerns. People tend to  
12                  see housing as a safe asset. They become very  
13                  indebted to purchase housing. And when you see  
14                  house prices go up continuously, people start to  
15                  become overly optimistic, become too indebted to  
16                  purchase housing and you can get in certain  
17                  circumstances more speculative mania coming  
18                  over. To oversimplify a bit, this was the story  
19                  in the US in 2005, 2008 before the last  
20                  recession -- before the last US recession in  
21                  2009. So what happens then, people become very  
22                  heavily indebted. Their expectations of price  
23                  increases just lose touch with economic reality  
24                  and then when the crisis hits, it's very hard to  
25                  service that debt. It becomes difficult to

1           respond in a measured way when debt levels are  
2           very high. You have to pay the mortgage. If  
3           you don't pay the mortgage, then all sorts of  
4           negative things happen and then when prices come  
5           down and that happens, you get a bit of a  
6           snowball effect on the reverse side. Roughly  
7           this is what happened in the 2008, 2009 crisis  
8           in the US.

9           Q    At the outset when discussing the period of time  
10           that you were looking at in the study, 2010 to  
11           2016, you mentioned establishing a benchmark  
12           with data up to 2010. Am I summarizing that  
13           correctly?

14           A    Yeah, that's correct, yeah.

15           Q    And can you just explain what you meant by  
16           establishing a benchmark and what role that  
17           benchmark played in the report.

18           A    Sure. So what we were trying to do is  
19           understand is there a sound economic reason for  
20           house prices to go up. And to do that you  
21           generally have to look as long a time period as  
22           you can. I mean, hopefully that sort of data in  
23           this particular exercise, the data were not  
24           always available, but the idea is that with this  
25           extensive period of data going back from 2010 to

1                   the 80s or hopefully earlier, you can understand  
2                   how the housing market operates in normal times,  
3                   and so with those statistical relationships  
4                   established you can then look forward from 2010  
5                   to 2016 to see well, is there anything weird  
6                   happening or is this just normal market  
7                   responses to normal market activity.

8           Q       So that pre-2010 data allows you to establish  
9                   what would be expected in the market acting  
10                  on --

11          A       Yeah.

12          Q       -- principles?

13          A       Yeah. Basically, yeah.

14          Q       I'm going to ask Madam Registrar to pull up the  
15                   report again at -- this is page 111 of the PDF,  
16                   please.

17                   And this is the results -- actually maybe  
18                   I'll ask you to explain. I'm sure you'll do a  
19                   much better job.

20                   Madam Registrar, if you could zoom into that  
21                   first figure, figure 20. Thank you.

22          A       Right. So basically as I was saying, the orange  
23                   line there is actual data, so unadulterated,  
24                   it's just this is the raw data. And so what we  
25                   did is we used the data from 1988 to 2010 to

1                   sort of train a statistical model, and then  
2                   based on that statistical model we used the  
3                   model to predict forward what prices would have  
4                   been from 2010 onwards, which is the blue line.  
5                   And as you see, in general the blue line and the  
6                   orange line roughly match each other until right  
7                   at the end.

8                   MS. PATEL: And, Madam Registrar, if you could please  
9                   scroll down. If we can compare figure 20 to  
10                  figure 21.

11                 Q    So we see figure 21 is the same comparison of  
12                   actual versus expected prices but for Toronto.  
13                   Can you speak to what the findings were in  
14                   relation to the two areas.

15                 A    Sure. The model did a little bit less well in  
16                   Toronto. If memory serves, I think we were  
17                   accounting for about 70 percent of the price  
18                   increase in Vancouver. I think it was less than  
19                   50 percent in Toronto. Just for context  
20                   predicting forward from 2010 to 2016 is a fairly  
21                   heroic task, so even academic economists were  
22                   surprised that the model worked so well. So  
23                   what I got out of this is that the model does --  
24                   based on just sound economic arguments does a  
25                   reasonably good job of explaining or accounting

1                   for price increases, but there was room to  
2                   improve.

3           Q       And in developing the predicted prices measure,  
4                   what are the factors that you take into account  
5                   in coming up with that blue, that predicted blue  
6                   line of housing price?

7           A       Sure. Just again for context, this is a fairly  
8                   macro perspective, so we're using fairly  
9                   aggregated data for this. So for the blue line,  
10                  or the forecast price, the main indicators were  
11                  average disposable income, population, the  
12                  market rate or the interest rate. Those are  
13                  sort of the standard explanatory factors for  
14                  house prices.

15          Q       And what are the sources for that data?

16          A       In general we would go for Statistics Canada  
17                  data. The date at the CMA level is a little bit  
18                  harder to get. So some of it would come from  
19                  the Conference Board of Canada, who have more  
20                  detailed CMA-level data. Mortgage rates are  
21                  available, I think, from the Bank of Canada.  
22                  Population over time would be available from  
23                  Statistics Canada or the Conference Board of  
24                  Canada.

25          Q       Just to make sure I've got these correctly, the

1                    fundamentals on which you based this, you build  
2                    out this prediction, are population growth,  
3                    income and mortgage rates?

4                    A    Yeah, that's correct.

5                    Q    Those are the basics. Can you just very briefly  
6                    explain how each of those factors would be  
7                    expected to impact on housing prices?

8                    A    Sure. So disposable income or some measure of  
9                    income, it doesn't have to be that one, but  
10                   basically income, as average income rises  
11                   generally people want to live in larger living  
12                   spaces. They may want to move to from a condo  
13                   to a single-detached house, so as average  
14                   incomes rise generally people want more and  
15                   better housing. Maybe they want to move closer  
16                   to their place of work, maybe they want to move  
17                   more into the suburbs where there are bigger  
18                   units. So basically more income means more  
19                   demand for housing. Population growth. As  
20                   people move from the rest of British Columbia,  
21                   the rest of Canada and the rest of the world  
22                   into Vancouver, there's just more demand for  
23                   housing units. Your population growth, there's  
24                   more demand. With respect to mortgage rates, as  
25                   people want to buy a home and they need to

1 access financing in order to purchase that home,  
2 their decision is heavily influenced by the  
3 mortgage rate. Generally mortgage rates have  
4 been trending downwards and generally this will  
5 increase demand for housing and makes it easier  
6 to access financing for purchasing a home.

7 Q Thank you.

8 Madam Registrar, you can take down the  
9 document now.

10 I won't take you to this in your report, but  
11 your report you -- and you just alluded to this.  
12 That for Vancouver you found that these  
13 conventional economic factors that we've just  
14 discussed played a part in nearly 75 percent of  
15 the growth, the price increase in Vancouver, but  
16 only accounted for 40 percent of the price  
17 increase in Toronto. Do I have that right?

18 A Yes.

19 Q Okay. And we're focused on Vancouver today.  
20 Were you able to conclude or draw any  
21 conclusions as to the cause of the other  
22 25 percent of the price increase in Vancouver?

23 A I'm not sure "conclude" is -- we try to  
24 speculate, but I'm not sure that we pass the  
25 threshold of convincing ourselves. I think



1                    coordinator could work on that. But let's carry  
2                    on and if there is a solution to it then it can  
3                    be implemented. But let's carry on as we are.  
4                    Thank you.

5                    MS. PATEL:

6                    Q    Thank you. I'm sorry, Dr. ab Iorwerth, for  
7                    interrupting you. You were addressing the  
8                    factors that I think you fairly said that you  
9                    weren't able to conclude, draw any conclusions  
10                   about other factors, other economic factors that  
11                   impacted that unexplained 25 percent price  
12                   increase in housing prices in Vancouver, but  
13                   there were factors that you considered. And I  
14                   think you were just finishing up by saying that  
15                   the last issue that you considered was supply  
16                   issues. And we'll get to the supply issues, but  
17                   before we get there, I just want to be sure I  
18                   have a good understanding of the other -- the  
19                   demand side factors beyond the traditional three  
20                   that we've already covered that you and your  
21                   team at CMHC considered as being a cause of  
22                   price increases in Vancouver.

23                   A    Sure. Also for context, in undertaking this  
24                   sort of analysis I would have been incredibly  
25                   surprised if we had managed to account for

1                   100 percent. You know, it may very well be that  
2                   if we had accounted for 100 percent given the  
3                   state of the data, we might suspect that we had  
4                   done something wrong. So we looked at stuff  
5                   like income inequality. We looked at investment  
6                   behaviour. We looked at the availability of  
7                   credit. There are aspects of Vancouver that  
8                   make it a nice place to live, and local  
9                   amenities, we looked at that sort of aspect. So  
10                  we basically -- and I'm not sure that I'm being  
11                  comprehensive in that list but anything that we  
12                  thought we could that there was some economic  
13                  rationale for it and we could get data on it, we  
14                  threw it in some sort of model.

15                MS. PATEL: Dr. ab Iorwerth, I'm being told by our IT  
16                  people that perhaps we could fix this video  
17                  issue fairly simply. Mr. Commissioner, I think  
18                  this will just take a moment, so with your  
19                  indulgence we'll just try that right now.

20                THE COMMISSIONER: Yes, that's fine.

21                MS. PATEL: Thank you. Dr. ab Iorwerth, if you could  
22                  click on the bottom left-hand corner of your  
23                  screen, the stop video button, and then click on  
24                  start video. We'll see if that works.

25                THE WITNESS: I'm seeing my picture up there, so ...

1 MS. PATEL: All right. The problem might be on my  
2 end, so we'll just -- we'll carry on.

3 Q One issue that the report addresses is the shift  
4 to high-end homes in certain metropolitan areas.

5 Madam Registrar, I'm wondering if you could  
6 pull up the report, page 68 of the PDF. If you  
7 could zoom into figure 4, please. Thank you.

8 Dr. ab Iorwerth, can you just describe for  
9 us what this figure is telling us.

10 A Sure. It's basically showing that the share of  
11 homes worth more than \$1 million has gone up  
12 particularly in Vancouver and Toronto -- I can  
13 go in quite a bit further into this. I'm not  
14 sure ...

15 Q Please, yes. Maybe if you could especially for  
16 Vancouver, if you could address what impact the  
17 price increase on higher-end homes had on the  
18 total price increase of homes in the  
19 metropolitan area.

20 A Right. So this relates -- and stop me if I go  
21 too far. This relates to quite a few of the  
22 stylized facts that we were finding that when --  
23 we discussed previously that average prices,  
24 average home prices had gone up, but there were  
25 several components of that. One is that it was

1           the price of single-detached housing that had  
2           gone up. The other fact that we found was that  
3           it was generally more expensive properties that  
4           went up. So prices of single-detached went up,  
5           you know, quite a bit, but the price of more  
6           expensive single-detached went up even more.  
7           And if memory serves, the same is also true of  
8           condominium apartments. It was generally that  
9           more expensive properties went up by more than  
10          less expensive properties.

11                 Now, there are several things that could  
12           account for this, including the location of  
13           those single-detached properties. So because of  
14           zoning regulations they tend to be relatively  
15           close to downtown and Vancouver, sort of south  
16           of False Creek, so there's several aspects being  
17           caught up here, that it's more expensive housing  
18           that are going up and that it's single-detached  
19           housing which takes up a lot of space that is  
20           going up.

21           MS. PATEL: And if we could scroll down to, Madam  
22           Registrar, page 69 of the PDF.

23           Q     And my understanding of figure 5 is in this  
24           explains what happens to average price changes  
25           if you parse out the more expensive homes, the

1                   over \$1 million homes and the under \$1 million  
2                   homes. Is that a --

3           A       Yeah, that's correct. We have several charts on  
4                   it. Some of them are a bit more technical, but  
5                   they all seem to point out that it's the more  
6                   expensive things that went up more. I'm not  
7                   sure if -- I'm scrolling through my own version  
8                   of the report to see if I can get a more  
9                   accessible chart. So in the -- I'm not sure how  
10                  comfortable people are with some of these  
11                  charts. This is on page 32 of the actual report  
12                  so I don't know what this is on the PDF.

13          Q       I think 76 perhaps.

14          A       Right. If you go down a little bit. So the  
15                  chart on the right there, Vancouver  
16                  single-detached, basically it shows the  
17                  distribution of house prices over time.  
18                  Basically it goes from brown to grey to green.  
19                  And so the distribution is shifting to the  
20                  right. This is sort of -- if you take all of  
21                  the properties, all of the single-detached  
22                  properties in Vancouver in -- what's that, 2008,  
23                  2012, 2016, you see the distribution is shifting  
24                  to the right. And so this tells us that it's  
25                  more expensive single-detached properties that



1                   succeeded at, some of it we did not. This was  
2                   partly within CMHC, but also there were efforts  
3                   as Statistics Canada which we can discuss later.  
4                   One of the efforts that we did just to try to  
5                   understand the investment patterns was to use  
6                   data reported by -- well, not reported, data  
7                   gathered by the Canada Revenue Agency on income  
8                   from rental properties. So I think it's fair to  
9                   say we were the first to examine that data. So  
10                  if you own a rental property you are supposed to  
11                  fill in a form T776. We worked with Stats Can  
12                  to look at that data in combination with regular  
13                  income data reported for tax purposes. That  
14                  gave us a sense of the magnitude of domestic  
15                  resident investment in properties in these major  
16                  urban areas and we wrote a chapter looking at  
17                  that data. So I think that was important data  
18                  just to give us a magnitude, and it's large.

19                  The second aspect was speculation. This is  
20                  inherently a difficult thing to look at because  
21                  one person's investment is another person's  
22                  speculation so it's a little -- there's quite a  
23                  lot of nuances in the data on how to look at  
24                  this. So one thing that we tried to do is that  
25                  we conducted a survey. We contacted a polling

1                    company. They conducted a survey of what people  
2                    in Montreal, Vancouver and Toronto, how they  
3                    perceived house prices, what their expectations  
4                    were about house prices. The reason we were  
5                    interested in price expectations is that for an  
6                    economist this is the cornerstone of  
7                    speculation. So if, you know, in a normal  
8                    market you might expect that house prices are  
9                    going up 3 to 4 percent -- I'm just making that  
10                   up, but if you have people expecting house  
11                   prices over the next ten years to go up by  
12                   10 percent, 12 percent, then you think, okay,  
13                   the expectations are a little bit disconnected  
14                   from reality. But people's purchasing decisions  
15                   on housing are driven by those expectations. So  
16                   if they expect housing prices to go up a lot,  
17                   they're more willing to pay a lot for housing.  
18                   And so if expectations start to become  
19                   disconnected from reality then there's a risk  
20                   that the housing market becomes disconnected  
21                   from reality as well. So that was one way we  
22                   looked at speculation. Another way we looked at  
23                   speculation, and this is a standard product from  
24                   CMHC, is that we look at the raw rate of price  
25                   increase. And if the rate of price increase is

1                   just not compatible with changes in market  
2                   fundamentals that we discussed before,  
3                   population, income and interest rate, if just  
4                   prices go up really rapidly, then this is a sign  
5                   of speculative activity in the markets. And  
6                   from memory, I think CMHC signalled that around  
7                   the 2016 period that the speculation was taking  
8                   off in Vancouver.

9                   MS. PATEL: Madam Registrar, you can take down this  
10                  document now. Thank you.

11                 Q    The report looks very briefly at the impact of  
12                  non-resident investment in real estate. Were  
13                  you able to draw any conclusions about the  
14                  impact of non-resident investment on real estate  
15                  prices?

16                 A    Well, it was sort of multi-pronged. The first  
17                  challenge was that we had limited to no data,  
18                  and this was true for everybody. Like, there  
19                  were no data. From memory, if you recall, this  
20                  report was published in early 2018, and from  
21                  memory the first report that contained data,  
22                  extensive data, was in late 2017 from Statistics  
23                  Canada. CMHC had tried to do some earlier  
24                  reporting, but, you know, it was the best we  
25                  could do at the time, so the earliest data was

1                   around 2017. So there was a lot of discussion  
2                   but very limited data.

3                   As I say, slight tangent on that, I believe  
4                   that the Government of British Columbia  
5                   introduced its tax policies in early 2017 and  
6                   that's when they started reporting on data on  
7                   non-resident investment. I think it was in  
8                   early 2017, March if memory serves. So data was  
9                   extremely limited. So that's the first point.  
10                  The second point, as I said, we thought we'd  
11                  done a pretty good job of understanding the  
12                  dynamics of the Vancouver market without  
13                  resorting to looking at non-residential  
14                  investment. Maybe to a non-economist accounting  
15                  for 70 percent of the price increase from 2010  
16                  to 2016 means we were missing a lot, but to an  
17                  economist that's fairly good. So I thought we  
18                  were -- we had a convincing story to understand  
19                  the dynamics of the market without going  
20                  elsewhere. And economists tend to follow  
21                  Occam's razor, so, you know, just try to stick  
22                  to simple explanations.

23                  So those were the thoughts at the time.  
24                  Now, as I said, we were aware of the Statistics  
25                  Canada data that was released, if I'm correct,

1 in late 2017. This was cross-sectional data, so  
2 it did not go back in time. It was just -- if  
3 it was released in 2017 I believe the data  
4 represented what was happening in 2016. And for  
5 the purposes of our analysis we couldn't really  
6 use that sort of data because it was  
7 cross-sectional. It looked across Vancouver in  
8 2016. It did not go back in time. So making  
9 inferences from that data were difficult.

10 So to illustrate the point, it may be that  
11 in parts of Richmond foreign investors or  
12 non-resident investors own 20 percent of  
13 apartments. We -- I mean, this is interesting,  
14 but for the purposes of our study we couldn't  
15 make use for that information. There are many  
16 reasons why non-resident purchases were  
17 20 percent in Richmond and just breaking that  
18 apart in an economic framework is difficult in a  
19 static one-year set of data.

20 Q And has CMHC done any work since the data  
21 started coming in from the Canadian Housing  
22 Statistics Program in 2017 to look at the impact  
23 of non-resident investment in real estate on  
24 housing prices?

25 A Well, as you say, Statistics Canada is now

1 reporting annual data for 2018, 2019 on that.  
2 So CMHC hasn't really pursued that much further  
3 to my knowledge. Now, the other part which I  
4 neglected to mention in my answer to the  
5 previous question, from memory the Statistics  
6 Canada report in 2018 reported that something  
7 like 3 percent -- this is from memory --  
8 3 percent dwellings in the Vancouver area, the  
9 Vancouver CMA, were owned by non-resident  
10 investors. Just from a straight economic  
11 statistical point of view, it was difficult to  
12 see how 3 percent of the housing stock could  
13 account for such a large increase in house  
14 prices from 2010 to 2016. So just mechanically,  
15 you know, and a bit of inference and a bit of  
16 expert judgment, it was just difficult to make a  
17 link from non-residents owning 3 percent of the  
18 housing market to such a large price increase.  
19 Now, if we get more data I may be completely  
20 wrong. There may be more -- we'd have to go to  
21 more sophisticated models, but it was just  
22 making that link was difficult at the time.  
23 Subsequent data have not shown a dramatic change  
24 in the share of non-resident investors.  
25 Q So CMHC hasn't drawn any conclusion that foreign

1 investment in real estate has driven price  
2 increases to a considerable extent?

3 A Right. It's not seen as a predominant factor.  
4 I would also add that the real world experiences  
5 that after the taxes were introduced by the  
6 Government of British Columbia in 2017, I think,  
7 price growth stabilized, but there was quite an  
8 impact on prices at the time the tax was levied,  
9 but there was no sustained change in the housing  
10 markets. Like, prices are still high in  
11 Vancouver.

12 Q And moving on to the supply question, what  
13 conclusions were you able to draw, if you were  
14 able to draw any conclusions, about the role of  
15 supply in driving housing prices in the  
16 Vancouver metropolitan area in particular?

17 A Right. So the way that economists think about  
18 these things is that there are lots of factors  
19 driving up demand, but you have to look at  
20 supply as well. It's demand and the supply, not  
21 demand or supply. You have to understand both  
22 of them. So when I said that income, population  
23 and mortgage rates are driving up demand, that's  
24 true, but that if prices go up and demand goes  
25 up, then that tells an economist that something

1 is not quite right on the supply side. Demand  
2 up, prices up, something is not right on supply.  
3 So we looked at that and the data is a bit  
4 tricky in the sense that there's not a lot of it  
5 or it's not always very clear how to think about  
6 the data. But what we tried to do was to try  
7 and understand how supply in terms of new  
8 housing starts responded to changes in prices,  
9 changes in sales, changes in construction, that  
10 sort of stuff, and what we found was that the  
11 responsiveness of the supply system was quite  
12 limited in Toronto and Vancouver, compared to  
13 Calgary, Edmonton and Montreal. So that was an  
14 empirical analysis.

15 Just to finish the thought, it's both in  
16 terms of quantity and in terms of time. So not  
17 something not captured in that analysis I  
18 just mentioned was that the time to obtain  
19 approval is going to be very lengthy in Toronto  
20 and Vancouver.

21 Q And just to illustrate the issue, Madam  
22 Registrar, if you could pull up the report  
23 again, page 70 of the PDF. The figure,  
24 "Vancouver Housing Starts." All right.  
25 Dr. ab Iorwerth, can you just tell us what we're

1                   looking at here in -- Madam Registrar, scroll  
2                   down a little bit. We're looking for Vancouver.  
3                   There we are. Figure 8. Thank you. If you  
4                   could tell us what we're looking at in figure 8.  
5           A        Right. So these are data collected by CMHC on a  
6                   monthly basis. They show the new starts  
7                   basically once concrete is poured into the  
8                   ground for apartments and single-detached  
9                   housing. And the data goes back obviously quite  
10                  a ways, so there's 25 years of data there. What  
11                  you see is, I mean, there are lots of squiggles,  
12                  but basically the lines are relatively flat.  
13                  Relatively. Particularly the orange line. I  
14                  can't quite see the end of it, but you know,  
15                  when you have a prolonged period of house prices  
16                  going up, multiple years, but then you see the  
17                  housing starts being relatively flat, tells an  
18                  economist okay, something is not quite right  
19                  here; the housing supply system is not  
20                  responding; something's not right. The blue  
21                  line there is condominiums and it's obviously a  
22                  lot more volatile. It tends to follow the  
23                  economic cycle quite a bit. So there was a  
24                  fairly sharp recession in 2009, and that's why  
25                  you had quite a dip in condominium starts.

1                   Generally, excepting those dips, the rates of  
2                   condominium construction is higher than  
3                   single-detached and to oversimplify, this  
4                   roughly reflects government policies of  
5                   encouraging densification, so... Just a final  
6                   sentence, this reflects data across the  
7                   Vancouver area, so there's condominium  
8                   apartments are in the downtown core in the  
9                   business district and out in Surrey Coquitlam.

10                  MS. PATEL: Madam Registrar, we can take that down.  
11                   Thank you.

12                  Q    I think in the time we have today that's kind of  
13                   an unfairly, unsophisticated look at a very  
14                   complex piece of work that CMHC did, but I have  
15                   a couple of more general questions that are  
16                   maybe disconnected to the report itself. You  
17                   know, we're here interested in a commission of  
18                   inquiry into money laundering in  
19                   British Columbia and from the perspective, your  
20                   perspective, as an economist and extensive  
21                   experience looking at housing matters, do you  
22                   think -- first of all, do you think that  
23                   there's -- having overseen the research that you  
24                   did in 2018 and the escalating housing prices  
25                   report, do you see it being a possibility that

1 money laundering has played a significant role  
2 in the increase of housing prices in the  
3 Vancouver metropolitan area or in fact anywhere  
4 else in Canada?

5 A It's a possibility. My answer is going to be  
6 very cautious because obviously we don't have  
7 the data. I don't know if you can -- again  
8 looking at my copy of the report and one of the  
9 early charts you mentioned was on that trend in  
10 Vancouver that we were predicting.

11 Q Figure 20?

12 A Hold on. This was -- well, maybe yeah, I'm  
13 looking at the exact summary. If you notice in  
14 the chart, this is page 4 of the report, but  
15 there may be a copy of the chart later on.

16 MS. PATEL: Madam Registrar, if you bring up page 50  
17 of the PDF. Thank you. Oh, sorry, I've got  
18 that wrong. Page 4 of the report, page 48 of  
19 the PDF. Thank you.

20 THE WITNESS: Right. So the chart at the top there,  
21 if you can make it a bit smaller because I  
22 wanted to -- that's fine. If you see there that  
23 the actual price exceeded quite a bit our  
24 predicted price from the model in 2016, and it  
25 was at that period that I think there was a lot

1 of discussion in Vancouver about all sorts of  
2 activities and that's when house prices really  
3 became disconnected from market fundamentals.  
4 So my view as an economist on having sort of  
5 casual acquaintance with the literature on  
6 speculation in different sorts of markets is  
7 that when you have prices going up very rapidly,  
8 everybody getting excited about an asset price,  
9 all sorts of various activities can happen. I  
10 mean, we talked previously about speculation,  
11 but it's perfectly possible in this period that  
12 there was money laundering going on. My point  
13 is that it's not clear that money laundering  
14 would be driving the housing markets from 2010  
15 to 2016. But when you see in such a sustained  
16 period of price increases, housing prices being  
17 seen as a one-way bet and when that comes to a  
18 bit of blow-off top almost and then all sorts of  
19 activities could take place. So in 2016 it's  
20 entirely possible that that disconnect was  
21 driven to some extent by money laundering. I  
22 wouldn't say that money -- to repeat, I'm  
23 skeptical that money laundering would be having  
24 a significant role in accounting for price  
25 increases from 2010 to 2016, but it's possible

1                   in 2016 that there was all sorts of stuff  
2                   happening.

3           Q       So it would be fair to say that what you mean is  
4                   that people with illicit funds to invest would  
5                   partake in the speculation in real estate in the  
6                   same way that others would?

7           A       Right. I'm generalizing, so, you know, I don't  
8                   have evidence of this, but when everybody gets  
9                   excited about a market, it's possible that some  
10                  of the paperwork is cut, you know, reporting.  
11                  People, I think realtors have some  
12                  responsibilities in reporting certain activities  
13                  and maybe, you know, everybody is excited about  
14                  making a lot of money, and so -- I don't have  
15                  evidence of on that. It's just that these are  
16                  sort of the behaviours that one might observe  
17                  when you have these very intense periods of  
18                  price speculations. So another period might be  
19                  '99, 2000 and the dot.com bubble or the late  
20                  80s, also in real estate in Canada. You get  
21                  these sorts of behaviours, these tops in the  
22                  market, if you like.

23          Q       So you're speculating that --

24          A       Yeah.

25          Q       -- the opposite could be true, that instead of

1 money laundering fuelling a hot market, a hot  
2 market could fuel or enable money laundering?

3 A Right. Now, as an economist I would say that's  
4 a symptom. Like, to my mind the underlying  
5 problem is that there's not a lot of supply in  
6 the market, so from a policy -- from a big, big  
7 picture policy there's a problem on supply.  
8 Because you have a supply problem, prices go up  
9 and that leads to speculative mania. That's  
10 sort of the tradition going back decades of  
11 looking at these events. So yeah, it's a  
12 symptom, yeah.

13 Q Okay. Thank you.

14 Madam Registrar, can you take that down,  
15 now.

16 And, Dr. ab Iorwerth, my last question is  
17 similarly maybe a speculative one for you, but  
18 do you think that's it's -- do you consider that  
19 it's possible to measure the effect of money  
20 laundering on -- if money laundering has an  
21 effect on housing prices, and I think we can  
22 safely say that you haven't -- you wouldn't so  
23 conclude; is that right?

24 A Well, I would say it's possible, but it's just  
25 extremely difficult to quantify.



1           academics that have tried to quantify this  
2           mismatch between, in technical jargon, the  
3           current account and the capital account and say  
4           okay, this is a rough proxy of cash that's  
5           floating around. Not -- well, potentially  
6           illegally, but unreported in some way.

7                         So I think on a national basis because that  
8           data is relatively accurately recorded, it's  
9           possible to get a sense of the scale of  
10          illicit -- of unreported transactions floating  
11          around just because you can measure cash. So  
12          okay, that's one part. The second part, then,  
13          is does that get into the housing system.  
14          Connecting what I said in the first part to the  
15          second part is, I think, difficult, borderline  
16          impossible. So in the sense of illicit money  
17          going into the housing market, I think a  
18          different strategy would have to be used, but  
19          again that would require a lot of -- that would  
20          require the opposite sort of analysis and a lot  
21          of very detailed analysis, a lot of detailed  
22          data. So this is a bit outside my area, but I  
23          think in the UK they have something called the  
24          unexplained funds, so if you make large  
25          transaction in the housing market then you have

1                   to explain where your funds came from. Now,  
2                   there are probably ways using very detailed data  
3                   to say okay, somebody bought a house with  
4                   2 million and they have reported income of  
5                   20,000. You know, but what's going on here? It  
6                   may be entirely legitimate, but you know, it's  
7                   that sort of much more detailed microanalysis  
8                   that I think would be required. But linking  
9                   those two elements that I discussed first, the  
10                  macro aggregate flows of funds with a more  
11                  detailed we think these are suspicious  
12                  transaction I think is really difficult.

13                MS. PATEL: It's a difficult area. Thank you very  
14                  much. Mr. Commissioner, those are my questions  
15                  for this witness.

16                THE COMMISSIONER: Thank you, Ms. Patel. I think we  
17                  have Ms. Stratton on behalf of the province,  
18                  who's been allocated five minutes.

19                MS. STRATTON: Thank you, Mr. Commissioner. I have  
20                  no questions for with witness.

21                THE COMMISSIONER: Thank you, Ms. Stratton.  
22                  Mr. Usher on behalf of the Society of Notaries  
23                  Public, who's been allocated five minutes.

24                MR. USHER: Thank you, Mr. Commissioner. Having  
25                  heard the testimony, I have no questions.

1           THE COMMISSIONER: Thank you, Mr. Usher. Ms. Magonet  
2                           on behalf of the BC Civil Liberties Association,  
3                           who has been allocated ten minutes.

4           MS. MAGONET: Thank you Mr. Commissioner. I have  
5                           just a few questions for Dr. ab Iorwerth.

6           **EXAMINATION BY MS. MAGONET:**

7           Q    My first question, Dr. ab Iorwerth, picking up  
8                           on the last few questions that Ms. Patel was  
9                           asking you, just so I'm clear, in the report  
10                          that you discussed today which is looking at  
11                          many different factors that may explain price  
12                          increases over the 2010 to 2016 period in the  
13                          Canadian housing market, nowhere is money  
14                          laundering mentioned as a potential factor. Is  
15                          that correct?

16          A    Well, I'm getting hung up on the word "nowhere."  
17                          I was responsible for 13 of the 14 chapters. I  
18                          was not responsible for the 14th chapter which  
19                          discusses policy. And I have some vague  
20                          recollection that there may have been discussion  
21                          in the 14th chapter of policy, but I'm not  
22                          completely sure. So I struggle with the word  
23                          "nowhere." We did not develop data on it, to my  
24                          memory. We did not include it in our formal  
25                          statistical analysis.

1           Q     Do you remember for the 13 of the 14 chapters  
2                   that you did work on? I appreciate that it's  
3                   quite a long report, but do you remember whether  
4                   money laundering is identified as a factor in  
5                   that part of the report?

6           A     Not to my recollection, no.

7           Q     Okay. Thank you. I just have a few other  
8                   questions about that report. Earlier today,  
9                   Ms. Patel was asking you some questions  
10                  regarding the role that foreign investment may  
11                  play in explaining rising housing prices in  
12                  Vancouver in particular. And I can take to you  
13                  this part of the report if it would help you  
14                  refresh your memory, but do you recall that in  
15                  the report it explains that while foreign  
16                  investment may not play a large role in  
17                  explaining the rise of housing prices, there is  
18                  certainly a perception that foreign investment  
19                  is playing that role?

20          A     Yeah. I recall that statement. Do you want me  
21                  to explain that?

22          Q     Yeah, could you just maybe talk a bit about the  
23                  survey that is discussed in the report?

24          A     Right. So maybe just for context again, so the  
25                  only -- we had a lot of anecdotes, but the only

1 concrete extensive analysis that we had was the  
2 Statistics Canada report released in December of  
3 2017 which showed a very low -- to an economist  
4 3 percent rate of non-resident investment is low  
5 for the Vancouver area. So, you know, compared  
6 to stuff like I said, population growth, income  
7 growth, mortgage rates, having 3 percent  
8 non-resident investment, it's difficult to make  
9 the case that it's driving house prices. Now,  
10 obviously in the popular press at that time  
11 there was a lot of discussion of, well,  
12 foreign -- the technical term from Stats Can is  
13 non-resident, but foreign investment. And  
14 that's -- I seem to recall that we asked in that  
15 survey chapter, what do you think are the  
16 primary factors driving house prices in  
17 Vancouver? And I think that's the way we  
18 phrased it. And a very large proportion,  
19 relatively speaking, said that foreign  
20 investment was an important part. So this was a  
21 bit of a disconnect for us that the data to the  
22 extent we had it was saying one thing but the  
23 people's perceptions were saying another thing.  
24 Now, the inference from that sentence is that  
25 people's behaviour tends to -- I mean, this is

1                   straying into behavioural economics, but  
2                   people's actions tend to be governed by what  
3                   they think they know. So to the extent that  
4                   they thought that there was this wave of foreign  
5                   investment coming in, then that would make them  
6                   think that prices were a one-way bet going  
7                   forward. So that was potentially one of the  
8                   reasons for the disconnect between where actual  
9                   prices were going and where we thought  
10                  fundamental prices should be.

11                Q    So, in other words, the disconnect may have been  
12                  driven not by actual foreign investment but by  
13                  the perception that foreign investment would  
14                  make prices go up. Is that accurate?

15                A    Yeah, that's accurate. I mean, if people  
16                  thought there was this huge wave for many years  
17                  of foreign investment then they might have tried  
18                  to say okay, well, we know that demand in the  
19                  future is guaranteed, so we might as well  
20                  leverage up and buy a house now so we can profit  
21                  from future price gains.

22                MS. MAGONET: Thank you. Those are my questions.

23                THE COMMISSIONER: Thank you, Ms. Magonet.

24                    Mr. Rauch-Davis for Transparency International  
25                    Coalition, who has been allocated five minutes.

1 MR. RAUCH-DAVIS: Thank you, Mr. Commissioner. I  
2 have no questions for this witness.

3 THE COMMISSIONER: Thank you, Mr. Rauch-Davis.  
4 Anything arising, Ms. Patel?

5 MS. PATEL: No, Mr. Commissioner.

6 THE COMMISSIONER: Thank you. Thank you, Dr. ab  
7 Iorwerth. I'm very appreciative of the time  
8 you've taken to share your expertise with us and  
9 your most interesting report. You are now  
10 excused from further testimony.

11 THE WITNESS: Thank you. Bye now.

12 THE COMMISSIONER: And, Ms. Patel, I think we'll then  
13 stand down to admit the next panel. This might  
14 be a good time to take the morning adjournment  
15 of 15 minutes and then if necessary we can take  
16 a further brief adjournment during the course of  
17 the upcoming panel. All right. Thank you.

18 THE REGISTRAR: This hearing is adjourned for a  
19 15-minute recess until 10:58 a.m. Please mute  
20 your mic and turn off your video.

21 **(WITNESS EXCUSED)**

22 **(PROCEEDINGS ADJOURNED AT 10:43 A.M.)**

23 **(PROCEEDINGS RECONVENED AT 10:58 A.M.)**

24 THE REGISTRAR: Thank you for waiting. The hearing  
25 is resumed. Mr. Commissioner.

1 THE COMMISSIONER: Thank you, Madam Registrar. Yes,  
2 Mr. Martland.

3 MR. MARTLAND: Thank you, Mr. Commissioner. As  
4 Ms. Patel indicated earlier this morning, we  
5 have a panel of three academics, Professors Josh  
6 Gordon, David Ley and Tsur Somerville, who are  
7 presenting as a panel on the topic of housing  
8 prices in the Vancouver region.

9 Madam Registrar, if the witnesses could  
10 please be affirmed and in the case of Dr. Ley  
11 sworn, please.

12 THE REGISTRAR: Witnesses, would you please, each of  
13 you, state your full name and spell your first  
14 and last name for the record. Let's start with  
15 Professor Gordon.

16 THE WITNESS: (JG) Josh Gordon. J-o-s-h G-o-r-d-o-n.

17 THE REGISTRAR: Thank you. And Dr. Ley.

18 THE WITNESS: (DL) David Ley, D-a-v-i-d L-e-y.

19 THE REGISTRAR: And Professor Somerville.

20 THE WITNESS: (TS) Craig Tsurriel Somerville.

21 C-r-a-i-g T-s-u-r-i-e-l S-o-m-e-r-v-i-l-l-e.

22 THE REGISTRAR: Thank you.

23 **DAVID LEY, a witness for**  
24 **the commission, sworn.**

25 **JOSH GORDON, a witness**



1                                   **EXHIBIT 634: Biography of Josh Gordon**

2                   MR. MARTLAND: Thank you.

3                   Q     And, Professor Gordon, as we see, you're an  
4                                   Assistant Professor at the School of Public  
5                                   Policy at Simon Fraser University in Burnaby and  
6                                   Vancouver. You completed your PhD in political  
7                                   science at the University of Toronto in 2012.  
8                                   And your doctoral research focused on the  
9                                   politics of labour market policy and the welfare  
10                                  state in advanced industrialized democracies; is  
11                                  that right?

12                  A     (JG) Correct.

13                  Q     Your most recent research has addressed the  
14                                  Canadian housing market and in particular the  
15                                  housing markets in Toronto and Vancouver and the  
16                                  affordability crisis in those cities which has  
17                                  resulted in a number of government policies and  
18                                  responses?

19                  A     (JG) Yeah, I wouldn't take credit, but yeah, no,  
20                                  I -- yes, that's where my research has been.  
21                                  Yes.

22                  Q     Thank you.

23                                  Next, Madam Registrar, if we could please  
24                                  display first the CV for Professor Ley.  
25                                  Professor Ley, you'll recognize that as being



1 geography at the University of British Columbia,  
2 a graduate of the University of Oxford and  
3 Pennsylvania State University where you  
4 completed a masters as well as a PhD. Is that  
5 right?

6 A (DL) That's correct.

7 Q You hold a Canada Research Chair in geography  
8 and have been appointed a Trudeau fellow and a  
9 fellow of The Royal Society of Canada. In  
10 addition to that you served as department head  
11 in the period of 2009 through 2012?

12 A (DL) Yes, that's correct.

13 Q You've undertaken a number of studies that look  
14 at immigration to Canadian cities, in particular  
15 the questions of immigration, housing and labour  
16 markets, immigration and poverty,  
17 multiculturalism, and the governance of diversity?

18 A (DL) Correct.

19 Q Thank you.

20 Madam Registrar if we could please have  
21 Professor Somerville's CV.

22 Professor Somerville, you recognize that to  
23 be your CV?

24 A (TS) Yeah, that's correct.

25 MR. MARTLAND: If that could be please be

1 exhibit 637, Mr. Commissioner.

2 THE COMMISSIONER: Yes, very well. 637.

3 THE REGISTRAR: Exhibit 637.

4 **EXHIBIT 637: Curriculum Vitae of Craig Tsurriel**  
5 **(Tsur) Somerville**

6 MR. MARTLAND:

7 Q Professor Somerville, you serve as the Real  
8 Estate Foundation of BC Professor in Real Estate  
9 Finance and Associate Professor in the strategy  
10 and business economics division at the UBC  
11 Sauder School of Business?

12 A (TS) That is correct.

13 Q You are an economist by training and among other  
14 things your research interests include housing  
15 markets, real estate development, real estate  
16 finance, affordable housing and the economics of  
17 cities?

18 A (TS) That's correct.

19 Q And you as we see there on display, you have  
20 degrees from Harvard University and Hebrew  
21 University in Jerusalem?

22 A (TS) That's correct.

23 Q Including the PhD that we see on display from  
24 Harvard?

25 A (TS) That is also correct.

1 Q And I take it you've been professor at UBC  
2 teaching since 1993?

3 A (TS) That is also correct.

4 MR. MARTLAND: All right. Thank you. Madam  
5 Registrar, I don't need that to be displayed any  
6 more at this point. Mr. Commissioner, my plan  
7 with the witnesses is first I expect a little --  
8 for the benefit of the witnesses a little bit  
9 quickly to work our way through a number of the  
10 academic papers that we have from the panel  
11 members without leaping all the way ahead into  
12 some of the topics that are addressed there and  
13 then work our way through a panel discussion of  
14 a number of topics that deal with the question  
15 of housing prices in the Lower Mainland.

16 THE COMMISSIONER: Thank you.

17 MR. MARTLAND:

18 Q With that, an explanation of the plan, I'll  
19 begin with Professor Gordon, and a number of the  
20 papers we have have been collected in the  
21 overview report, which has now been marked as  
22 exhibit 602.

23 Madam Registrar, if you could please bring  
24 up exhibit 602 and I'll go first to appendix U.  
25 That's great.

1                   So we see here from Professor Gordon a paper  
2                   that you are the author of in housing studies  
3                   called "Solving Puzzles in the Canadian Housing  
4                   Market: Foreign Ownership and Decoupling in  
5                   Toronto and Vancouver." And what I'll do is go  
6                   to the next page, please, Madam Registrar, and I  
7                   will take a shortcut that's on offer with the  
8                   abstract, it refers to the -- it's described as  
9                   follows:

10                   "Using new data from the Canadian Housing  
11                   Statistic Program, this paper provides a  
12                   basis for an integrated account of the  
13                   Canadian housing market in the last two  
14                   decades. It shows how the housing markets  
15                   in Vancouver and, to a lesser extent,  
16                   Toronto have become decoupled from the  
17                   local incomes due to significant flows of  
18                   foreign capital. Once this dynamic is  
19                   appreciated, certain puzzling elements of  
20                   the Canadian market become intelligible."

21                   You go on to say:

22                   "The analysis points to possible policy  
23                   solutions to intense housing affordability  
24                   challenges. It also provides evidence of  
25                   widespread tax avoidance in certain urban

1                    areas.  Furthermore, it documents a  
2                    methodology that researchers in other  
3                    national contexts ..."

4                    You go on to say.

5                    "-- may adopt to infer the presence of  
6                    decoupling through foreign ownership."

7                    That's a description of the paper.  If we go  
8                    down a little we see reference in the first few  
9                    lines to the comment that "in housing markets,  
10                    as in other markets, prices serve an allocative  
11                    functions."  And then if we go over to -- let's  
12                    do this, over to the next page, page 2 of the  
13                    report, one page down, just under the table  
14                    that's on display, "the upshot of this dynamic,"  
15                    that first paragraph.  Just down a little bit,  
16                    please, Madam Registrar.  The start of that we  
17                    see:

18                    "The upshot of this dynamic is that in  
19                    urban housing markets, areas deemed 'more  
20                    desirable' are more expensive, and houses  
21                    in those areas are generally owned by  
22                    higher income households.  This typically  
23                    creates a strong correlation between  
24                    household incomes and house prices within  
25                    a metropolitan housing market."

1                   And the next paragraph down if we could scroll  
2                   down just a little, Madam Registrar. You write:  
3                   "Some national housing markets do not  
4                   display this pattern."

5                   And you go on to focus on Toronto and Vancouver  
6                   as areas that disrupt the typical pattern. At  
7                   the bottom of that page second-last line:

8                   "They have very high prices compared to  
9                   their average incomes."

10                  I just read from that to ask you this question:  
11                  is that what is described as decoupling?

12                  A     (JG) Yeah, decoupling, David Ley will be able to  
13                  speak to this, but the general idea is that  
14                  housing purchases don't align well with declared  
15                  domestic incomes. And that's due to a  
16                  significant presence of income from abroad  
17                  that's not declared for tax purposes in a  
18                  domestic setting and so there is a kind of a  
19                  disconnect between the level of housing  
20                  purchases and kind of expenditures and income  
21                  patterns. And so that's what I tried to  
22                  document in the paper and there's a kind of a  
23                  previous paper on this -- David Ley also wrote  
24                  on this for many years, but a paper that kind of  
25                  is most associated with that concept. It's a

1 paper by Markus Moos and Andrejs Skaburskis from  
2 2010 where they document kind of the emergence  
3 of this in Vancouver. And I'm simply kind of  
4 illustrating how profound that is and kind of  
5 demonstrating it kind of rigourously with some  
6 new data from Statistics Canada as part of their  
7 Canadian Housing Statistics Program.

8 Q And as you look at that question of decoupling,  
9 one of the considerations is the question of the  
10 globalization of real estate, the effect of  
11 money moving into the market here?

12 A (JG) That's correct. Yes.

13 Q I wanted to ask a question about that. If we  
14 could please go to page 8 of the paper, so that  
15 should be five pages down, Madam Registrar. I'm  
16 not as sophisticated as Ms. Patel who had all  
17 the PDF page numbers, I'm afraid.

18 If you have a look there at the bottom of  
19 that page, please, under the bold subheading,  
20 you've written:

21 "Recent years have shown renewed academic  
22 interest in the role of foreign investment  
23 in residential real estate. In popular  
24 discussions of the topic, foreign  
25 investment is often portrayed to happen in

1                   a 'disembodied' way: foreign speculators,  
2                   hedge funds or kleptocrats (or some  
3                   amalgam of all three) purchase housing  
4                   sight unseen, only to leave properties  
5                   empty or rented out at arms length -  
6                   'safety boxes' for the super-rich."

7                   That's how you describe the, I suppose, popular  
8                   discussion or maybe the perception of foreign  
9                   investment in real estate?

10                A     (JG) That's sometimes how it's portrayed in the  
11                   popular press, yes. And there's no doubt that  
12                   that is a portion of the dynamic that is real,  
13                   but, yes, as I go on to argue, that that's not  
14                   the kind of -- the only form through which money  
15                   from abroad will flow into a housing market and  
16                   arguably in Vancouver's case not the most  
17                   important way.

18                Q     Yes, and we see that on next page, but I don't  
19                   know that I need to read back to you from your  
20                   own paper. Tell us a little bit more about what  
21                   you see as the more important dynamic at play in  
22                   Vancouver, please.

23                A     (JG) Yes, well, again as David Ley has shown in  
24                   his research, there's a long history of what's  
25                   called investor immigration where the Canadian

1 government set up an immigration system or  
2 stream where wealthy individuals from abroad  
3 could loan the government, you know, 400,000  
4 initially and then 800,000 subsequently in  
5 interest-free terms for five years and then  
6 receive the money back after that period and in  
7 return they would get a chance at kind of  
8 permanent residency and then subsequently  
9 potentially citizenship. And so it was a way of  
10 kind of potentially purchasing citizenship and  
11 the idea was to encourage wealthy individuals to  
12 come and land in Canada, and they landed  
13 primarily in Vancouver and to a lesser extent  
14 Toronto. And the idea was to have them arrive  
15 with their wealth and their entrepreneurial  
16 talents and to engage in business here and to  
17 spur economic activity in the local domain or  
18 arena, but in fact what happened primarily is  
19 that those households, those family units, often  
20 the breadwinner would continue to earn overseas  
21 where they had accumulated their initial wealth  
22 while the family, the remaining family would  
23 reside in Canada or, you know, again  
24 particularly in Vancouver and Toronto, and so  
25 there would be money that would be flowing into

1                   that household from abroad and not declared as  
2                   kind of income or domestic income to Canadian  
3                   authorities. And the size of that immigration  
4                   stream was fairly large in the context again of  
5                   Vancouver and Toronto. It was much smaller in  
6                   other areas or jurisdictions in Canada. But  
7                   that was fairly substantial, and so there's a  
8                   long history of kind of wealth migration, is one  
9                   way of putting it. And so that has kind of led  
10                  to the pronounced decoupling patterns that we  
11                  see that I try to document.

12                 Q    You talk about wealth migration. I take it part  
13                   of the dynamic you're describing in this paper  
14                   and generally is that the reported income -- and  
15                   maybe I can put it this way: the reported  
16                   income to Canadian tax authorities in a given  
17                   year may be -- properly or improperly, but it  
18                   may be very low in the case of someone who isn't  
19                   earning income and paying taxes on that income  
20                   in Canada?

21                 A    (JG) That's correct. You have a fairly  
22                   widespread phenomenon of individuals -- or,  
23                   sorry, households who declare yes, quite low  
24                   domestic income for tax purposes or, you know,  
25                   very little, and yet have substantial kind of

1                   global income or global sources of wealth or  
2                   funds. And so that's again what I demonstrate  
3                   is that you have this very strange pattern of  
4                   quite high rates of declared low incomes in very  
5                   expensive areas and housing segments which is  
6                   puzzling, but once we have good data on  
7                   non-resident ownership, which is a good proxy  
8                   for this dynamic about where that money will  
9                   tend to be, we can see that there's a very  
10                  strong relationship which indicates that, you  
11                  know, there's substantial amounts of foreign  
12                  money that are flowing into the housing markets  
13                  in Vancouver and, to a lesser extent, Toronto on  
14                  a continuous basis.

15                 MR. MARTLAND: Madam Registrar, if we could go to PDF  
16                  page 575, which I think will be page 22. If we  
17                  look at the top, just as we display it there is  
18                  great.

19                                 This is in the conclusion section of this  
20                                 paper, Professor Gordon, you write:

21   "The evidence presented above has three  
22   important implications; two practical and  
23   policy-relevant, the other of theoretical  
24   interest to researchers."

25                                 And then you summarize those three implications.

1                   "First, the affordability challenges in  
2                   Toronto and Vancouver have been  
3                   exacerbated by high rates of foreign  
4                   ownership. The use of untaxed (and  
5                   undeclared) foreign income and wealth has  
6                   pushed up prices, and made it harder for  
7                   tax-paying buyers to compete in prized  
8                   segments. If policymakers wish to improve  
9                   housing affordability for local working  
10                  people, then policies to discourage or  
11                  sharply curtail foreign ownership will be  
12                  important."

13                 To cover off your conclusions in the next  
14                 paragraph, you say:

15                         "Second... considerable tax avoidance is  
16                         occurring in satellite family situations."

17                 And if we go down a little bit on that same  
18                 page please, Madam Registrar, that  
19                 paragraph beginning "lastly." The third point  
20                 you write:

21                         "From a theoretical standpoint, the  
22                         analysis above illustrates the possibility  
23                         of using mismatches in declared incomes  
24                         and house prices as an indicator of  
25                         foreign ownership."

1 I take it in a simplified way I've covered at  
2 least the implications that you alert us to in  
3 this paper?

4 A (JG) Yes.

5 Q All right. And let me turn up, please, exhibit  
6 [sic] S to the same overview report. You  
7 referred to an earlier paper that fed into the  
8 first one. Is that what this is?

9 A (JG) Yes, so the -- a lot of the kind of idea  
10 and kind of thinking behind the paper that we  
11 just went through was contained in this except  
12 I'm using slightly different data which allows  
13 me to control directly for certain confounding  
14 variables, which we could talk about, but I  
15 won't get too technical at this point. And so  
16 this kind of illustrates again this kind of  
17 puzzling pattern of fairly low incomes in  
18 high-priced areas and a very kind of stark  
19 divergence in what are called the kind of  
20 average house price to average income ratios  
21 across municipalities in Vancouver, which again  
22 were quite puzzling and which were noted by an  
23 analyst Richard Wozny, and so hence the title.  
24 But yes, the latter, the paper that we just  
25 talked about was kind of strongly related to



1                                   This article looks at one important factor  
2                                   in these affordability challenges:  
3                                   foreign ownership."

4                   And you go on to talk about decoupling, which  
5                   we've just been at least touching on briefly.

6                   You say:

7                                   "The author investigates the role played  
8                                   by foreign ownership in the recent housing  
9                                   crises in Toronto and Vancouver before  
10                                  presenting a few possible policy  
11                                  approaches to address this dynamic. He  
12                                  concludes that some means of continuously  
13                                  taxing foreign ownership at a steep rate  
14                                  is needed in core urban regions of the  
15                                  country. Foreign buyer taxes and the  
16                                  Speculation and Vacancy Tax in  
17                                  British Columbia are evaluated in that  
18                                  context."

19                   Now, that may not even be you that wrote that  
20                   description of your paper, but in any event  
21                   there's the summary that we have of this paper.  
22                   And to put this in some context could you give  
23                   us a quick sketch of what the two government  
24                   taxes are that are referred to in that last  
25                   sentence, what they are, please.

1           A       (JG) Sure. So foreign buyer tax -- I hope my  
2                    sound is coming through okay -- is an extra  
3                    property transfer tax that's levied on  
4                    individuals who are not permanent residents or  
5                    citizens of Canada in certain areas, not  
6                    throughout BC or Canada but in specific urban  
7                    regions and on specific types of residential  
8                    property. And so the rate was initially set at  
9                    15 percent in the tax that was applied to  
10                  Vancouver in July of 2016 and that was  
11                  subsequently raised to 20 percent and expanded  
12                  to Nanaimo, Victoria, Kelowna and parts of the  
13                  Fraser Valley, I believe. And so that works to  
14                  make purchases by foreign citizens less  
15                  attractive. And then there's the speculation  
16                  and vacancy tax which was announced in  
17                  February 2018 and kind of brought into  
18                  legislation and passed in November 2018. And it  
19                  has two kind of components. The speculation  
20                  component, which is the most relevant here, aims  
21                  to impose a 2 percent surtax starting in the  
22                  second year, a 2 percent surtax on properties  
23                  that are owned and not rented either in whole or  
24                  in part by either foreign citizens or so-called  
25                  satellite families, and satellite families are

1                   those situations where more than 50 percent of  
2                   the income is earned abroad and not taxed as  
3                   income in Canada. And so the idea there is to  
4                   address the types of situations that we had just  
5                   talked about where you might have a wealthy  
6                   household which is not paying Canadian income  
7                   taxes but nevertheless enjoys the various social  
8                   services and amenities and so on that Canadian  
9                   income taxes provide for everyone who resides  
10                  here. So that's the speculation component, and  
11                  there's also a vacancy component where  
12                  properties that are left unused for more than  
13                  six months of the year are assessed a varying  
14                  penalty depending on kind of the background of  
15                  the owner. For those who are a Canadian tax  
16                  resident the rate is 0.5 percent. For those who  
17                  are foreign owners or satellite, or those deemed  
18                  satellite families, the rate is 2 percent and  
19                  that system works through a self-declaration  
20                  system combined with an audit process.

21                  Q    We'll certainly spend some time as we move  
22                          through topics tackling the question of whether  
23                          interventions or measures such as these taxes in  
24                          each of you, and I'll certainly allow your  
25                          colleagues to chime in on this when we get

1                   there, whether they've had an affect on housing  
2                   prices and if so what effect. For now I want to  
3                   sort of carry on my march through these  
4                   different reports. And I'll do the next one,  
5                   please, it's the slide deck that Professor  
6                   Gordon has provided within the last few days. I  
7                   think what I'm Inclined to do at this point is  
8                   to simply refer you to it and mark it as an  
9                   exhibit and we may -- I think it's helpful,  
10                  though, that at any point if you'd like to  
11                  illustrate a point by taking us to the slide  
12                  deck that you know that it's there and  
13                  available.

14                   Madam Registrar, could you please bring up  
15                   the PowerPoint called "Slides For the Cullen  
16                   Commission."

17                   Professor, you recognize that as being the  
18                   slide deck that you provided to us in the past  
19                   two or so days?

20                  A       (JG) Correct.

21                  MR. MARTLAND: And, Mr. Commissioner, that deck of  
22                   course only was provided recently. We typically  
23                   have a process where we're circulating things  
24                   some ways in advance, so I should probably pause  
25                   to see if any participant has an issue or a

1 concern, but unless there is an issue or concern  
2 I propose that be marked as exhibit 639, please.

3 THE COMMISSIONER: All right. Any objections?

4 Hearing none it will be marked as 639. Thank  
5 you.

6 THE REGISTRAR: Exhibit 639.

7 **EXHIBIT 639: Slides for the Cullen Commission -**  
8 **Joshua Gordon, SFU**

9 MR. MARTLAND:

10 Q Since we have it on screen very briefly, to  
11 avoid creating undo mystery or anticipation  
12 let's have a look, please, at slide 3. You  
13 spoke earlier, I think, in referring to the  
14 paper referring to Mr. Wozny about the  
15 decoupling observations within the Metropolitan  
16 region of Vancouver but also in broader areas.  
17 So I take it on this one -- how would you  
18 describe what this displays first of all?

19 A (JG) So this is slightly distinct from the  
20 pattern that Wozny kind of was focused on, but  
21 it's related, and it actually -- this slide  
22 makes more sense in the context of the slide  
23 above it, which is that there is typically a  
24 strong correlation between kind of average  
25 incomes in an urban area --

1           Q     And maybe I'll interrupt you just to see if we  
2                    might have a look because I think that will be  
3                    useful.

4           A     Yes.

5           Q     Because we see a number of American cities  
6                    there. So go ahead.

7           A     (JG) So essentially the idea is that you have a  
8                    fairly strong correlation between median  
9                    household incomes and house prices in an urban  
10                   area, kind of high productivity individuals in  
11                   households are able to kind of compete,  
12                   outcompete kind of lower productivity households  
13                   in these areas. This kind of generates what's  
14                   sometimes called the superstar city effect, and  
15                   so you have certain cities with kind of very  
16                   high productivity, high incomes and they have  
17                   very high house prices that partly reflects the  
18                   purchasing power of those individuals and  
19                   households. And so this is kind of the pattern  
20                   that we see in the United States and, you know,  
21                   the most expensive markets are also the markets  
22                   in San Francisco and San Jose with the highest  
23                   incomes. But what we see if you go down to  
24                   Canada is we see a different pattern.

25          Q     There we are. Yes.

1           A       (JG) We see a different pattern, which is that  
2                    Vancouver and Toronto and Victoria have very  
3                    high house prices but not particularly high  
4                    incomes. And so this is a kind of a strange or  
5                    puzzling feature of the Canadian housing market,  
6                    at least in relation to the American market.  
7                    And so what I've tried to do is tried to account  
8                    for how that might occur, and part of the  
9                    answer in my view is that substantial amounts of  
10                   income are not being declared as income and thus  
11                   not showing up in official statistics. And so  
12                   if we kind of recognize the influence of that  
13                   foreign flow of money, then the pattern and the  
14                   prices would make more sense. And so what I do  
15                   then is I look within these urban areas,  
16                   especially Vancouver and Toronto, and I try to  
17                   indicate well, you know, why do we also see  
18                   within these urban areas this pattern of very  
19                   high house prices alongside quite low average  
20                   incomes, and the argument there is that a lot of  
21                   the average incomes are being pulled down  
22                   significantly by very low declared incomes and  
23                   those are strongly aligned or correlated on a  
24                   geographic basis with areas of high non-resident  
25                   ownership. And so this indicates that there's

1                   substantial amounts of foreign money that is  
2                   flowing into the market and again not being  
3                   declared as income for Canadian tax purposes.

4           Q       Thank you. I'd like to turn to Professor Ley,  
5                   and Madam Registrar, if you could please  
6                   bring -- if we could turn back to exhibit 602.  
7                   This time appendix T.

8                   Professor Ley, you'll recognize this as  
9                   being a paper in *Urban Studies* that I think is  
10                  2019, although upper right-hand corner it says  
11                  2020, as a paper you've authored, sir?

12          A       (DL) Yes, indeed.

13          Q       And again to take the approach of looking at the  
14                  abstract, you refer to the end of the first  
15                  line:

16                  "Examining the globalization of property  
17                  in gateway cities, and its contribution to  
18                  house price inflation in Vancouver, the  
19                  least affordable market in North America.  
20                  In response to a floundering BC economy, a  
21                  favourable investment and immigration  
22                  climate welcomed capital and invited  
23                  capitalists to relocate their economic  
24                  skills. Substantial funds flowed to  
25                  Vancouver from the buoyant Asia-Pacific

1 from distant investors and wealthy  
2 immigrants. Capital flows were  
3 facilitated by a powerful growth  
4 coalition, as the provincial government  
5 benefitted significantly from these funds  
6 and held a common interest with a vigorous  
7 trans-Pacific property industry.  
8 Supporting this growth coalition, the  
9 deregulation of private institutions and  
10 the under-resourcing of public agencies  
11 working in the capital/real estate nexus  
12 provided an ecology favourable to the  
13 'animal spirits' of the market, including  
14 real estate opportunism and money  
15 laundering. Such a growth ecology,  
16 exacerbating severe unaffordability, may  
17 exist in other globally networked  
18 cities ..."

19 That's a very compressed summary of the topic  
20 that you address in this paper. Is that fair?

21 A (DL) Yes, indeed. Yeah. There's a lot there,  
22 but you presented it accurately.

23 Q Well, maybe a little quickly, but I think we're  
24 driven to that sometimes. In the paper you talk  
25 about what you call the dramatic rise in

1 residential unaffordability in a number of  
2 gateway cities, and I wonder to have a sense of  
3 how you think about that issue, how do you  
4 identify these gateway cities and who is on that  
5 list?

6 A (DL) What we find is that in the last 30 years  
7 or so residential property has been identified  
8 as an important investment asset, in part, of  
9 course, because of very low interest rates which  
10 have made it from some perspectives cheap,  
11 particularly if you've got advantageous  
12 exchange, currency exchange situation. I can  
13 illustrate that, I think, by a statement, this  
14 is quite a well known statement made by Larry  
15 Fink, who is the CEO of BlackRock, the world's  
16 largest wealth management company. And at a  
17 conference in Singapore in 2015 he was asked the  
18 obvious question how do I get rich, what is the  
19 best place to invest? And this was his answer.  
20 This isn't verbatim, though I've cited it I  
21 think not in this paper but in another paper.  
22 He said there's two ways to get rich today. One  
23 is through certain forms of contemporary art and  
24 the other is through buying apartments, and here  
25 coming close to quoting him, buying apartments

1                   in New York, apartments in Vancouver, apartments  
2                   in London. So what he is there doing is  
3                   identifying Vancouver with New York and London  
4                   as gateway cities, cities which are very closely  
5                   tied in to global flows of migrants and capital  
6                   and trade and information. And to these cities  
7                   I would add cities in which I'm doing research  
8                   at present, Hong Kong, Singapore, Sydney and  
9                   then cities that I'm not working in, Los  
10                  Angeles, San Francisco, Miami. These are  
11                  examples of cities that share this capacity of  
12                  being very globally networked where population  
13                  is rising, where investment in those property  
14                  market is active and where we have the  
15                  unaffordability problems that we see in  
16                  Vancouver. So though the Vancouver situation is  
17                  unusual, it is far from unique. We see similar  
18                  kinds of problems in other gateway cities where  
19                  investment in real estate as an asset is pricing  
20                  out local people.

21                  Q    To pick up on Vancouver in particular, if we  
22                        could go to page 3 of this document, please,  
23                        Madam Registrar. And if we go down just a  
24                        little what I'll direct you to is on the  
25                        left-hand column there, just probably about 15

1                   or so lines from the bottom, you see a sentence  
2                   that begins a "detailed examination." Do you  
3                   see that?

4           A       (DL) Yes.

5           Q        "A detailed examination in Vancouver  
6                   identifies covert processes accompanying  
7                   deregulation rarely addressed in urban  
8                   theory, including money laundering,  
9                   property-related tax evasion and real  
10                  estate opportunism, that likely inflate  
11                  housing markets in other deregulated  
12                  gateway cities."

13                    Could you tell us a little more when you  
14                    identify these covert processes, one of which is  
15                    money laundering, what you're describing.

16           A       (DL) Yes. It is widely recognized that real  
17                    estate is a very manageable way of laundering  
18                    money. And I've got a quote I think in this  
19                    paper from AUSTRAC, which is the Australian  
20                    money laundering -- or watching out for  
21                    monitoring money laundering that makes exactly  
22                    this point, that it is very easy and very common  
23                    to see money laundering occurring in cities with  
24                    expensive real estate. And to that I can add  
25                    New York and Miami, two of the gateway cities I

1                   just mentioned. I think it was the US revenue  
2                   service started out examinations of money  
3                   laundering in the real estate market in New York  
4                   and Miami some years ago in the context of  
5                   tremendous capital inflows of funds that were  
6                   typically associated with shell companies or  
7                   trusts where the beneficiary owner was not  
8                   identified. They were commonly coming from tax  
9                   havens.

10                   It's the same in London. And when he was  
11                   prime minister one of the good things David  
12                   Cameron did was to really try to open up the  
13                   enormous movement of money from tax havens into  
14                   London through trusts and shell companies. So  
15                   to try to expose the beneficial owner. The  
16                   issue was as much tax avoidance as it was money  
17                   laundering. There's many ways of avoiding tax  
18                   payments. We just heard about that from Josh.

19                   Now, when it comes to Vancouver,  
20                   international organizations like the Financial  
21                   Activities Task Force and Transparency  
22                   International have both identified Canada in  
23                   general and Vancouver in particular as having  
24                   huge compliance issues which means that its real  
25                   estate market is wide open to money laundering,

1                   and that those two reputable international  
2                   organizations have both come to that conclusion.

3           Q        I wonder, Professor Ley, because I think you  
4                   actually write -- some of that's contained in  
5                   this report -- in this paper, rather, at  
6                   page 12, Madam Registrar. If we could please  
7                   move to that. There we are. You see in the  
8                   second column there you make reference to what  
9                   you've just referred to, TI as well as the FATF  
10                  reports. That's what you were just referring  
11                  to?

12           A        (DL) Correct.

13           Q        If we go down a little bit you write at the  
14                   start of the next paragraph:

15                               "FINTRAC and the police have failed in  
16                               their joint mandate."

17                   What do you mean in saying that?

18           A        (DL) Well, I'm really I think drawing that  
19                   comment from Peter German's report where he  
20                   identifies the diversion of police capacity to  
21                   anti-terrorism activities, and also the failure  
22                   to successfully bring any investigations to a  
23                   conclusion in the criminal courts. Which is  
24                   very difficult, there's no doubt about that. I  
25                   mean, I'm not an expert on money laundering.

1                   You'll notice that I'm citing from other people  
2                   here, but I think it's not a controversial point  
3                   to say that there has not been success in  
4                   wrestling down money laundering in the Canadian  
5                   residential market and particularly in the  
6                   Vancouver market.

7                   Q       Thank you. Professor Somerville, I'd like to  
8                   turn to you next, please.

9                                 And, Madam Registrar, if we could bring up  
10                   appendix V to the same overview report  
11                   exhibit 602. I've got a number of your papers  
12                   that we have here, Professor Somerville, so I'll  
13                   probably do this at highway speed. This first  
14                   paper from 2020, the *Journal of Urban Economics*,  
15                   entitled "Using Purchase Restrictions to Cool  
16                   Housing Markets." And if we look at the  
17                   abstract -- maybe we can zoom in a little bit to  
18                   minimize the eye strain -- the paper is described  
19                   in these terms:

20                                 "In response to worsening housing  
21                   affordability ... some governments have  
22                   introduced taxes or restrictions to reduce  
23                   demand for local residential real estate  
24                   by non-residents."

25                   You go on say that the study looks at



1                   has found that immigrants lower house  
2                   prices in immigrant destination  
3                   neighbourhoods. In this article, we find  
4                   that this latter result is not globally  
5                   true. Rather, we show that immigrants can  
6                   raise neighbourhood house prices, at least  
7                   in the case of the wealthy immigrants that  
8                   we study. We exploit a surprise  
9                   suspension and subsequent closure of a  
10                  popular investor immigration program in  
11                  Canada to use a difference-in-differences  
12                  methodology comparing wealthy immigrant  
13                  destination census tracts to  
14                  non-destination tracts. We find that the  
15                  unexpected suspension of the program had a  
16                  negative impact on house prices of 1.7 to  
17                  2.6 percent in the neighbourhoods and  
18                  market segments most favoured by the  
19                  investor immigrants."

20                 So again, another example of looking at in this  
21                 case you call it a surprise development, but in  
22                 any event a change in policy to then analyze  
23                 what the implications are.

24                 A     (TS) That's correct.

25                 Q     I'll carry on with this quick review of papers.

1                   The appendix X, please. And we see again the  
2                   same co-author from July 2016.

3                   "Foreign investment in real estate has  
4                   become the go-to explanation as the number  
5                   one cause for Vancouver's housing  
6                   affordability crisis."

7                   You go on to say -- refer to responses by the  
8                   BC provincial government, a 15 percent tax on  
9                   foreign residential real estate purchases. I'll  
10                  pause to say you're writing in July 2016 when  
11                  that policy change is quite recent.

12                 A     (TS) That's correct.

13                 Q     You say:

14                   "While intuitive and plausible, this  
15                   argument has so far been based entirely on  
16                   anecdotes, casual and theoretical  
17                   estimates, and incomplete examples."

18                 You go on to say:

19                   "We still lack sufficient data to assess  
20                   the impact foreign investment as well as  
21                   foreign source capital by immigrants and  
22                   current residents has on the market."

23                 And I'll certainly be picking up on those  
24                 comments as we move into our discussion of these  
25                 topics. A bit lower down in the next

1 paragraph in the paragraph beginning:

2 "In a recent joint academic study we  
3 attempt to fill this gap by exploiting the  
4 suspension of the ... immigrant investor  
5 program."

6 Is that the paper we were just referring to a  
7 moment ago?

8 A (TS) That's correct, this is a more general  
9 presentation of that previous academic paper, so  
10 I would consider these complements -- or  
11 actually substitutes for each other. It's just  
12 targeted towards different audiences.

13 Q That makes sense and it seems this one may be a  
14 little more directed to looking into --

15 A (TS) Lawyers.

16 Q Well, there we go. So you're saying it's the  
17 simple version?

18 A (TS) No, I'm saying that it uses more precise  
19 language.

20 Q Well, you played that well. You say:

21 "In this case rather than pure foreign  
22 investment we look at the affect of  
23 foreign wealth on local housing markets.  
24 We document that neighbourhoods in market  
25 segments most favoured by investor

1 immigrants experienced a measurable price  
2 decline relative to the rest of the market  
3 following the announcement."

4 That's the very same dynamic that you've  
5 described in the earlier paper.

6 A (TS) That's correct. It's the same root  
7 analysis.

8 Q All right. Good.

9 Madam Registrar, I don't need to go to  
10 appendix Y. That's another paper. I will turn  
11 up, please, appendix Z.

12 This is a 2008 working paper "Are Canadian  
13 Housing Markets Overpriced?" is the title.  
14 Appreciating that it dates back to 2008, let me  
15 look at the first page of the paper. And you  
16 start by again I suppose date stamping this with  
17 the downturn in 2008:

18 "The severe downturn in US housing markets  
19 is triggering concerns that markets in  
20 Canada will also contract dramatically  
21 despite more conservative lending prices  
22 in Canada."

23 Skipping ahead:

24 "We find that the housing stock in many  
25 major Canadian cities is substantially

1                   overpriced."

2                   Down a few paragraphs where it starts with:

3                   "Are Canadian housing markets likely to  
4                   follow those in the US down?"

5                   You say:

6                   "We ask: how do current house prices in  
7                   nine major Canadian cities compare to  
8                   their equilibrium or balanced market  
9                   levels?"

10                  As the, I suppose, measuring stick to think  
11                  about that you define equilibrium housing price  
12                  here in a city from the relationship between  
13                  house rents and prices in that city. I'd like  
14                  to ask you sort of what the different measuring  
15                  sticks are and why you've used that approach in  
16                  this 2008 paper, please.

17                  A       (TS) Okay. So there is in house price models --  
18                  there's an echo there. I don't know that's --  
19                  all right. In house price models one way of  
20                  thinking about them is an asset in a asset  
21                  market equilibrium. So this is not an urban  
22                  economics model but a financial model, is to  
23                  look at the price and relate that to rents.  
24                  It's analogous in financial markets to looking  
25                  at the price of a stock and looking at its

1                   dividends. And in this market -- in this  
2                   framework there's what's known as a cost of  
3                   capital that essentially equilibrates between  
4                   rents and prices. That cost of capital is made  
5                   up of essentially two pieces, a holding cost  
6                   piece which includes the interest rate, property  
7                   tax rate, insurance rate and then an expected  
8                   price appreciation rate, which is sort of an  
9                   expected return on the asset going forward. And  
10                  so, you know, in equilibrium we would expect  
11                  rent and prices to sort of then balance. The  
12                  tricky part of that is that the expected price  
13                  appreciation piece is somewhat subjective in how  
14                  one estimates it. That's sort of trying to put  
15                  yourself in the mindset of buyers on what they  
16                  expect to see happen with prices. And you can  
17                  basically justify any relationship between rents  
18                  and prices with an expected price appreciation.

19                         So this model tries to just take a sort of  
20                         very simple model of price appreciation and plug  
21                         that in and say based on those relationships  
22                         what do we find. The sort of contribution of it  
23                         was looking at single family house rents or  
24                         looking at rents and prices for the same type of  
25                         unit as opposed to trying to look at apartment

1 rents and single family house prices. So, you  
2 know, I would take this as a speculative kind of  
3 framework rather than any kind of proof.  
4 Although, the decline in Vancouver after that  
5 did go down about 7 to 11 percent, so there you  
6 go. Sometimes one gets completely lucky on  
7 future price movements.

8 Q I see at the bottom of that page you've got  
9 these different ranges, so the 11 percent comes  
10 in right within what you've set out.

11 A (TS) But that's -- you know, I would not have  
12 ever bet money on those things happening because  
13 it's very much dependent on a particular  
14 measure, expected price depreciation, and that's  
15 laid out in the paper and it's a way of looking  
16 at things and I think of it as a way to sort of  
17 intellectually contextualize them.

18 Q Thank you. And you'll all be relieved to hear  
19 I'm almost done with this march through  
20 documents and papers, but there's one more I'd  
21 like to cover. Exhibit 330, Madam Registrar, is  
22 the expert panel on money laundering in BC real  
23 estate report. I'll pause on that colourful  
24 first page to note the authors are Professors  
25 Maloney, Somerville and Unger. So you're one of

1                   the three co-authors, Professor Somerville, of  
2                   this important report.

3           A       (TS) Are we going to go through all 175 pages?

4           Q       No, not today. No, this report is before us.  
5                   Professor Unger has talked to us about  
6                   quantification. I don't propose to retread that  
7                   same turf today. Maybe what I will do is a bit  
8                   of a shortcut to doing this quickly. If we  
9                   could look at page 2 of the report, and Madam  
10                  Registrar, I'm sorry because that will be a  
11                  little skipping along to find. I don't have the  
12                  PDF. There we are. It's within the executive  
13                  summary page 2. If we have a look at items 3  
14                  and 4 perhaps. To the extent, Professor, that I  
15                  might be asking you something that is more  
16                  reflective of work that your co-authors were  
17                  working on, don't be shy to let us know that or  
18                  what have you. But we see here, and this is the  
19                  shortcut of the executive summary item 3:

20                               "Money laundering investment in BC real  
21                               estate is sufficient to have raised  
22                               housing prices and contributed to BC's  
23                               housing affordability issues."

24                  Now, there's a number of caveats here and even  
25                  more in the body of the paper itself, the expert

1 panel report. The first one is about the data  
2 limitations that make it difficult to estimate  
3 the level of money laundering and they make it  
4 even more challenging to estimate the allocation  
5 of money laundering to specific economic sectors  
6 such as real estate and the impact of that  
7 investment on house prices. Then the bottom  
8 line, I suppose, is a cautious estimate that  
9 almost 5 percent of the value of real estate  
10 transactions in the province result from money  
11 laundering investment, and then a parallel  
12 estimated impact would be an increase to housing  
13 prices in the range of 5 percent. Could you  
14 comment on that and the cautious nature of the  
15 conclusion or observations that are given there.

16 A (TS) So the adverb "cautiously" here is used not  
17 in terms of a conservative estimate but in terms  
18 of we're cautiously making an estimate  
19 recognizing that a very, very large number of  
20 assumptions and caveats underpin that  
21 assumption. So what I would say is that if one  
22 accepts Professor Unger's estimates of the  
23 dollar amount of money laundering and one sticks  
24 that into the BC economy, that depending on what  
25 one 's assumptions are of how much of that might

1 flow to real estate, then one can get without  
2 terrible assumptions to a point where it would  
3 have contributed about 5 percent to housing  
4 prices. But, you know, one could easily argue,  
5 if you look at the range in the report that's  
6 basically anywhere from about zero to 7 percent  
7 as a possible range and that's contingent on  
8 accepting Professor Unger's number as factual  
9 and accurate.

10 Q And when you say her number, you're describing  
11 to the figures that she employing the so-called  
12 Walker gravity model in attempting to come to  
13 grips with the amount of money laundering  
14 activity that's actually taking place in a given  
15 economy, the number that she comes up with,  
16 which I think for the province of  
17 British Columbia was the figure of \$7.4 billion?

18 A (TS) Yeah, about 2.5 percent of provincial GDP  
19 for 2018, and you know, that was a projection  
20 assuming that 2015 numbers would apply in 2018  
21 as well. So, you know, they're sort of tiered  
22 levels of assumptions. But that's correct.

23 Q And I take it that really if that's the  
24 foundation or the starting point for then  
25 thinking about or trying to consider impact on

1                   housing prices from money laundering, you're  
2                   dealing with a first number that you have that  
3                   there's a set of hesitations or caveats around  
4                   and then extending on that even more caution,  
5                   even more in the number of assumptions that are  
6                   needed to then come up with this sort of a  
7                   description of 5 percent?

8                   A       (TS) Yeah, the challenges is if one wants to  
9                   come up with a number, then a bunch of  
10                   assumptions need to be met. If one it willing  
11                   to accept that there's a bunch of money in the  
12                   economy that wouldn't otherwise be here, then  
13                   the notion that some of that flows to real  
14                   estate and that in the presence of a relatively  
15                   inelastic supply that leads to house price  
16                   increases is not an unreasonable set of  
17                   assumptions. So, you know, I think there's  
18                   sufficient evidence that both by looking at  
19                   similar cities elsewhere where research has been  
20                   done and by taking the work from CMHC to suggest  
21                   that the supply of housing in Vancouver is what  
22                   economists refer to as relatively inelastic --  
23                   and I'm hoping that Dr. ab Iorwerth used that  
24                   term with you guys. I don't know. I didn't  
25                   listen to his entire presentation, but it's

1                   essentially that the supply response is not as  
2                   strong as it might be else -- as it typically is  
3                   elsewhere. And so if you get a shock to demand  
4                   and supply response is more muted, then that  
5                   channels into higher prices.

6                   Q    And just since we have it on screen before I  
7                   have this taken down, number 4 from the  
8                   executive summary talks about red flag analysis  
9                   demonstrating the need for data collection.  
10                  That's certainly a topic we'll circle back to.

11                  A    (TS) Yes. So the red flag analysis I think is a  
12                  term that Dr. Unger and individuals in sort of  
13                  money laundering research use. By  
14                  characteristics that one believes are associated  
15                  or correlated with money laundering activity  
16                  they are -- but in no way are proof. So I  
17                  think, you know, the key understanding there is  
18                  now there's proof of money laundering activity  
19                  but more items, oh, well let's have a look at  
20                  this. So for instance were someone to purchase  
21                  a property with no evidence of income to support  
22                  that purchase, the kind of things that might  
23                  trigger the unexplained wealth orders in the UK,  
24                  that would be a red flag. That doesn't mean  
25                  that there's not a perfectly reasonable

1 explanation transfers of wealth, access to their  
2 own wealth that are known, but that would go  
3 into this category.

4 And so in our context that was looking at  
5 corporate ownership, at purchases without  
6 mortgages, foreign ownership and looking at how  
7 those were distributed across property types and  
8 price segments within British Columbia and  
9 within various geographies within British  
10 Columbia.

11 Q Great.

12 Madam Registrar, we can at last remove the  
13 display of the document.

14 And I'd like to begin this sort of general  
15 discussion of topics without doing it through  
16 documents and each of you being referred to your  
17 own prior writing with this question. And maybe  
18 I'll start with Professor Ley, but at any given  
19 point if someone wants to chime in or take the  
20 lead, I welcome you to let me know that.

21 But I'd be interested to hear your comments  
22 on in general terms what kinds of factors do you  
23 identify as having the most impact on the price  
24 of residential real estate, and within the  
25 factors that influence the price of residential

1                   real estate what do you see as being more  
2                   influential or less powerful or influential,  
3                   please.

4           A       (DL) Well, the conventional argument is to look  
5                   at what are called fundamentals, and these are  
6                   typically features that are associated with the  
7                   local market and national circumstances, so such  
8                   things as local income levels, local population  
9                   growth, interest rates nationally. I think  
10                  while you never take away from those factors and  
11                  there are times when they again become  
12                  uppermost, what we've seen I would argue since  
13                  Expo, since the late 80s in this region have  
14                  been surges of capital from outside the region  
15                  that have in fact invalidated those conventional  
16                  expectations. And we've already heard from  
17                  Professor Gordon something about this, that  
18                  those surges have come both through wealth  
19                  migration and also through offshore investment,  
20                  just as Mr. Larry Fink advised his audience in  
21                  Singapore, go invest in Vancouver real estate.  
22                  And a lot of people have done that.

23                               Mrs. Meng, who has been detained in  
24                               Vancouver for the last couple of years, had two  
25                               houses she owned here. She didn't live here.

1                   But she owns two houses here. And that kind of  
2                   offshore purchase where this property in cities  
3                   like Vancouver becomes part of an investment  
4                   portfolio because real estate in gateway cities  
5                   has got very good track record of making  
6                   significant gains.

7                   So my view is that the only way to interpret  
8                   the growth of the Vancouver market since Expo is  
9                   to look at the role of investors rather than  
10                  what you might call local users, people who are  
11                  working and their -- pretty much their full  
12                  income comes from their wage labour in the  
13                  Vancouver area. And that amongst those  
14                  investors, a tremendous amount has come from  
15                  outside Canada and it is hard to account for the  
16                  surges here any other way. Look, for example,  
17                  at the great price surge from around 2015 to  
18                  2017 which coincided with the release of a  
19                  trillion dollars in Chinese foreign exchange.  
20                  An extraordinary amount of money left China  
21                  during that period, and lo and behold Vancouver  
22                  house prices from summer 2015 to summer 2016  
23                  went up by almost 40 percent. And the same  
24                  happened in Australia where they have data which  
25                  we didn't then have which was able to identify

1                   yes, these investors were coming from China. We  
2                   didn't have that kind of data at that time. So  
3                   I think we can see that there have been surges.  
4                   The pre '97 surge when tremendous amount of  
5                   wealthy folk were relocating and relocating  
6                   their capital from Hong Kong because of anxiety  
7                   with the communist takeover or re-appropriation  
8                   of Hong Kong as part of China.

9                   Now, as said a few moments ago, it is very,  
10                  very difficult to put precise numbers on this,  
11                  and as soon as you put numbers on, as he said in  
12                  the context of his -- of the money laundering  
13                  report, as soon as you put numbers on, they are  
14                  surrounded by so many caveats that you are left  
15                  with a sense that yeah, there is something going  
16                  on, but we actually don't know how important it  
17                  is; we know it's important, but we don't know  
18                  how important. So I find one has got to be very  
19                  careful, and I think Tsur has quite properly  
20                  shown the tremendous assumptions and caveats  
21                  that go into these quantitative models, and  
22                  really when you want to see how effective are  
23                  they, you look at the starting assumptions; you  
24                  don't look at the technical formulae because I'm  
25                  sure that is all correct. It's the starting



1 government published the wealth of business  
2 migrants coming into British Columbia. That was  
3 their liquid wealth, the money available to  
4 spend in British Columbia. And over a ten-year  
5 period from the late 80s up to '97, I was able  
6 to estimate that if you put all of these numbers  
7 together of all of the business migrants then  
8 you end up with 35 to \$40 billion, and when you  
9 consider that 95 percent of business immigrants  
10 to BC live in Greater Vancouver and only in some  
11 parts of Greater Vancouver, then you can see a  
12 very, very significant amount of capital  
13 associated with wealth migration that has  
14 affected the local market. So it's a matter of  
15 where the data is available in numerical form  
16 you can use it, but elsewhere it isn't and you  
17 have to use other methodologies to make your  
18 argument.

19 Q Professor Somerville, the initial question had  
20 to do with the factors that have an influence on  
21 housing prices. I wonder if you would be able  
22 to comment on whether or not you agree that, for  
23 example, surges in wealth migration and offshore  
24 investment are influential factors in particular  
25 in the Lower Mainland?

1           A       (TS) So, you know, I think David spoke very  
2                    clearly about the clash between -- I'm going to  
3                    say anecdote but anecdote doesn't do it justice,  
4                    but between things that we know about people but  
5                    do not quantify and things that we can quantify.  
6                    And I think sort of that's where the challenge  
7                    is. So, you know, if you admit a large number  
8                    of immigrants and that large number of  
9                    immigrants are people that are relatively what  
10                   economists refer to as high human capital, so  
11                   they either have some -- so they have skills  
12                   that have earned them relatively good wages  
13                   where they were and/or they also have large  
14                   stores of wealth, one would expect that some of  
15                   that would come with them. You know, but are  
16                   they an investor? Are they an immigrant? Are  
17                   they an immigrant with wealth? I think there's  
18                   a lot of loose use of this terminology. And I  
19                   think in some ways Josh previously in talking  
20                   about this has sort of done a nice job in sort  
21                   of just talking about well, if we talk about the  
22                   inflow of capital independent of whether it's an  
23                   investor or an immigrant, you know, you look for  
24                   a certain kind of effect. So if we will accept  
25                   that since 1986 Canadian policy at a national

1 level and often at a provincial level has been  
2 one that has encouraged people and has intended  
3 to encourage people who are more likely to  
4 transfer wealth, and we recognize that at a  
5 global level there is a larger movement of  
6 capital around the world with some of that  
7 flowing into real estate, then it is a  
8 reasonable conclusion that there is a piece of  
9 capital being deposited in Vancouver that is not  
10 purely generated by what people who earn money  
11 here are saving.

12 And so, therefore, if you look at the  
13 housing market and you increase demand, because  
14 demand comes from people, household preferences,  
15 demographics, income and wealth, and so if you  
16 sort of increase the wealth bit, some of that is  
17 going to flow into real estate, then you are  
18 going to get an increase in prices and when we  
19 look at affordability we don't tend to look at  
20 what people's wealth is, we just look at their  
21 income. So that's sort of part of it. There  
22 is -- but that also interacts with the ability  
23 to supply. If we could build lots of housing  
24 really quickly and easily then an increase in  
25 demand doesn't translate to a large change in

1 prices. It is the interaction of these two that  
2 matters.

3 Similarly, if all foreign capital bought  
4 apartment buildings and then rented units out  
5 then we would call that multi-family housing  
6 supply and we would think it was the most  
7 wonderful thing on earth. So how that -- where  
8 that money goes and then what's done with those  
9 units matters as well. You know, a German  
10 pension fund buying a site and then developing  
11 apartment buildings and then renting those out,  
12 we would consider that to be a favourable inflow  
13 of capital. So it's not necessarily the flow of  
14 capital but sort of what happens to it once it's  
15 here that also matters. That's a very long  
16 answer.

17 Q I'd like to pick up on the last part of that.  
18 You chose Germany I assume for a reason. Is  
19 there a part of this where there's a political  
20 or maybe a public discourse that pretty quickly  
21 can taint into one that focuses in the Lower  
22 Mainland and probably in the province  
23 specifically on China, Professor Somerville? Do  
24 you see that as part of the dynamic at play?

25 A (TS) So I think if I asking that question we're

1 not speaking to my expertise as an economist and  
2 so we're speaking more to my personal opinions.

3 Q I don't know want you giving us that caveat, but  
4 if you could do your best to field it anyways,  
5 thank you.

6 A (TS) Well, I will provide that caveat because I  
7 think you have Henry Yu coming in who may speak  
8 better to people's perceptions and things. It  
9 is certainly true that if you look at our mix of  
10 immigrants, our mix of immigrants has a larger  
11 weighting on East Asia than is true for other  
12 places in Canada. So if you sort of just go on  
13 that piece. If you look at -- if you take  
14 investor immigrants when that program existed  
15 and use that as a proxy for capital, that was  
16 initially heavily weighted towards Hong Kong,  
17 then it transitioned to Taiwan and then it  
18 transitioned to the People's Republic of China  
19 as the main source of those individuals. So if  
20 you take that and use that as your sole source  
21 of capital sort of, then you get a particular  
22 answer that looks towards East Asia. I think  
23 realistically our focus in terms of linkages as  
24 a Pacific Rim nation is towards other Pacific  
25 Rim nations. But I think there is a tendency to



1                   considerably harder in terms of kind of your  
2                   down payment amount and so on in recent years  
3                   given the sharp rise in prices. So from an  
4                   ownership perspective, yes. And rents have been  
5                   increasing in recent years kind of a bit faster  
6                   than incomes and so that puts pressure on renter  
7                   households, too. But one important thing to  
8                   maybe put in this whole discussion is that, you  
9                   know, there is a distinction between rental  
10                  markets and ownership markets, and so we have  
11                  been mostly talking about ownership markets to  
12                  this point, but in terms of the ownership  
13                  market, yes, it's very expensive. And I've  
14                  characterized it as a crisis and that's  
15                  certainly how most British Columbians have felt  
16                  for many of the most recent years just given the  
17                  extremely high prices relative to what they're  
18                  making in the labour market.

19                  Q     In terms of the average income level, I take it  
20                  part of the proposition there is simply that  
21                  Vancouver isn't Toronto or New York, it's not  
22                  the financial centre or the head office city  
23                  within Canada and doesn't command the same sort  
24                  of salary levels.

25                  A     (JG) That's right. I mean, what I will say is



1                   letting the professor ask a question, but go  
2                   ahead. I'd like you to comment, please. You're  
3                   muted.

4           A        (TS) I'm going to comment rather than ask a  
5                   question, and I did use -- it's funny. The  
6                   lower the -- the raise the hand feature in Zoom  
7                   is kind of useless. No one seems to notice  
8                   them. You have to wave your hand.

9           Q        I missed it.

10          A        (TS) I want to just make one or two points which  
11                   are not meant to contradict anything that  
12                   Professor Gordon has said, but just to put them  
13                   in a certain kind of context, which is one does  
14                   need to be a little careful with price to income  
15                   ratios. A very well-accepted urban economics  
16                   model called the Roback model. I think Karen  
17                   Roback, that's her first name, came up with it  
18                   that looks at how population and incomes are  
19                   distributed among cities where population and  
20                   businesses can move would say that a city or an  
21                   area that had very, very high amenities or were  
22                   perceived to a be a very, very attractive place  
23                   to live would have both higher land prices and  
24                   lower incomes than a city that was perceived as  
25                   less attractive. And so one does always sort of

1                   have to think about that and those preferences  
2                   need not be stable over time. Those preferences  
3                   can change over time. So one -- that's sort of  
4                   one part. And the other part harkening back to  
5                   what I talked about before in the sort of price  
6                   to rent ratio in that 2008 working paper that  
7                   was introduced as a document, you can also get  
8                   prices substantially deviating from incomes and  
9                   be a normal rational type of outcome if the  
10                  expectations of future price appreciation are  
11                  extremely high. Now, that then leads to the  
12                  question as to what causes those things. So you  
13                  know, I think that it's important to remember  
14                  that simply ratios are useful. They are  
15                  instructive, but they have other slices to them  
16                  that I think just need to be part of the record.  
17                  That's all.

18                Q    Thank you. What I'd like to turn to now is  
19                    the -- there's been some different terms that  
20                    are used for this, but one of them is the term  
21                    "foreign ownership" and to ask a few questions  
22                    about the role or influence of foreign ownership  
23                    on real estate housing prices in Vancouver. In  
24                    asking this question, I should make it perfectly  
25                    plain, I think you probably all appreciate,

1                   we're leading this panel to ask and learn about  
2                   the topic of housing prices in the province and  
3                   in particular the Lower Mainland in order to  
4                   then narrow in on questions about money  
5                   laundering in the real estate sector but by no  
6                   means to conflate the two. And indeed the three  
7                   of you are here speaking broadly about housing  
8                   prices. So to the extent this might connect  
9                   with money laundering I welcome you to tell us  
10                  that. But the question isn't one that's  
11                  narrowed or focused on money laundering. If I  
12                  were to ask that, and maybe to back up a moment,  
13                  the first question might be when there's  
14                  reference to foreign ownership or foreign  
15                  investment in real estate, what does that  
16                  describe? Is there a shared acceptance of what  
17                  the terminology is or what the activity that's  
18                  being described is? Professor Gordon, I'll ask  
19                  if you can speak to this.

20                  A       (JG) so I've tried to offer up -- sorry about  
21                  the echo there again. I've tried to offer up a  
22                  definition. You know, I can't say that it's the  
23                  widely-accepted definition, but I think it  
24                  probably captures most of what we kind of are  
25                  thinking about. And so that is so foreign

1 ownership of residential housing would be when  
2 housing is purchased primarily with income or  
3 wealth earned abroad and not taxed as income in  
4 Canada. So again so the key idea there is it's  
5 housing purchased primarily, so it's most of the  
6 money, doesn't have to be all of the money, most  
7 of the money with income or wealth, so again  
8 it's about the flows of money, not about  
9 citizenship necessarily and not taxed as income.  
10 So again this is money that's earned abroad and  
11 not taxed domestically. And so once we  
12 understand that as foreign ownership, you know,  
13 it's pretty clear that Vancouver has a very high  
14 rate relative to other cities of foreign  
15 ownership, and again I've tried to document in  
16 those papers. And so I would be interested in  
17 whether Tsur and David agree with that  
18 definition, but you know, I think that that's  
19 kind of what we're trying to capture is flows of  
20 capital and the extent to which that's kind of  
21 not earned locally and taxed locally as income  
22 domestically.

23 Q I'll invite your comments, to take up the offer  
24 to chime in on that if they have any comment.

25 A (DL) Well, I agree with that assessment and that

1                   in a sense is then what brings together the two  
2                   sources of investment which are more  
3                   geographically specified, i.e., wealth migration  
4                   where people have actually travelled to Canada  
5                   and at least some of their family is resident in  
6                   Canada and those who are purchasing property  
7                   while outside Canada and not having a normal  
8                   residence here. In each case, in each case  
9                   foreign capital is what is involved, and I think  
10                  that I do feel that really is the key ingredient  
11                  is where the capital originates because if it's  
12                  outside this labour market, then it's obviously  
13                  going to have an effect which will be a  
14                  distraction in this labour market because people  
15                  here are living on local incomes and if there  
16                  are -- if there is capital coming from outside  
17                  then, as Tsur said, with limited supply there  
18                  are going to be very predictable consequences  
19                  for housing affordability.

20                  (TS) So if you take the sort of logical  
21                  extreme of that then, you know, the house prices  
22                  in the Gulf Islands are high because of foreign  
23                  ownership, it's just these foreign people are in  
24                  the Lower Mainland rather than in the Gulf  
25                  Islands. If you do it more broadly house prices

1                   are high in Victoria because -- it just depends  
2                   how one is drawing the lines for -- hang on a  
3                   sec, Josh. Josh, hang on. Then house prices  
4                   are high in Victoria because the flows are  
5                   coming from people from -- who are retiring  
6                   there. And when economists use the term  
7                   "foreign ownership" they're looking for the  
8                   situation where the registered owner, and  
9                   perhaps beneficial owner if one wants to take a  
10                  further step, is a non-Canadian entity. That  
11                  would be the economics definition of it. I  
12                  think what both Josh and David highlight is from  
13                  the perspective of the demand for housing, but  
14                  if the capital is -- was earned elsewhere or  
15                  generated elsewhere and it lands here then it is  
16                  housing demand that does not reflect the local  
17                  labour market. And that's probably the right  
18                  framework for the discussion, but it is not what  
19                  an economist would define as foreign ownership.  
20                  But I think it's -- I think it's the right term  
21                  to use if one is thinking about what local  
22                  labour incomes can support as opposed to what  
23                  housing prices are.

24                                 (JG) So if I can just jump in there. First  
25                                 of all, I mean, that, I've never heard that

1                   precise definition. I don't think that that can  
2                   be claimed to be the definition of economics.  
3                   What you're referring to when you have somebody  
4                   from, say, Vancouver who takes money that's been  
5                   earned in Vancouver and then brings it over to  
6                   Salt Spring Island, that can't be foreign because  
7                   again that's earned domestically. It's  
8                   earned -- you know, foreign is about a country.  
9                   So that's not earned abroad; right? So there is  
10                  a distinction there. It would be non-local; I  
11                  would agree with that. It would be non-local  
12                  purchasing, non-local wealth. And in fact we  
13                  know that that is a powerful influence on  
14                  markets outside of Vancouver, which is that you  
15                  have people who have earned money and made money  
16                  through the real estate market, too, who take  
17                  funds and they bring them over to other  
18                  locations around the province and they push up  
19                  housing prices there. And so we have this  
20                  powerful ripple effect. I have a chart that I  
21                  can show you that's part the slides that I sent  
22                  you that I think would be useful to show. David  
23                  Ley has a peer-reviewed paper on this. And so  
24                  we in fact no that that non-local money is going  
25                  to have a profound effect. And so, you know,

1                   we're dealing with one element of that, but  
2                   there is a distinct element of that because at  
3                   least that non-local wealth will have been  
4                   generated from incomes and sources that have  
5                   been taxed domestically, whereas that won't be  
6                   the case for the foreign sourced purchases.

7                   And you know, to get to the point of money  
8                   laundering there's also the issue of well, we  
9                   might have a more effective regulatory system  
10                  that discourages corruption better, not entirely  
11                  of course, but than other jurisdictions, and so  
12                  the distinction between foreign and domestic  
13                  matters in that discussion as well. So I would  
14                  push back on that a bit. If you would like we  
15                  could pull up that slide that shows the ripple  
16                  effect, which is quite potent.

17                  Q   Well, I don't mind you taking us there. I take  
18                  it in part you described the sort of dynamic  
19                  that might be at play, for example, when  
20                  Victoria real estate prices go marching up not  
21                  quite in lock step but sort of consequent upon  
22                  increases in Vancouver. Why don't we bring up  
23                  the slide deck which is exhibit 639, and,  
24                  Professor Gordon, I'm not sure within the slides  
25                  which one you had in mind.

1           A       (JG) Go to page 12.

2           Q       Thank you. There we go.

3           A       (JG) It's not showing up for me.

4           Q       We've got it.

5           A       (JG) There we go. Sorry. Go up one.

6           Q       Thanks.

7           A       (JG) Yeah, there you go.

8           Q       Incidentally, we don't hear an echo with your

9                    voice.

10          A       (JG) Okay, great.

11          Q       So that's all fine.

12          A       (JG) Yeah, so, I mean, you see the Greater

13                    Vancouver market kind of leads the upper trend,

14                    then the Fraser Valley follows and the impact is

15                    clearly felt in Victoria and the Okanagan, and

16                    in fact we have data that tracks -- the Victoria

17                    Real Estate Board tracked purchases of folks

18                    from the Lower Mainland and so we saw a big

19                    spike of that in 2015, 2016, 2017. And what do

20                    you know, Victoria house prices go up and that's

21                    not a surprise because the people who are

22                    bringing large sums of money who can outcompete

23                    kind of folks in the Victoria labour market are

24                    going to be using that capital that's been

25                    generated by an appreciating market in Vancouver

1                   and so that's why these things follow. So  
2                   that's a kind of a visual representation of the  
3                   ripple effect. Again, David Ley has a  
4                   peer-reviewed paper on this. But that's just to  
5                   indicate the importance of non-local wealth and  
6                   its influence on housing markets, but there is a  
7                   useful distinction nevertheless between kind of  
8                   non-local and foreign and I've tried to spell  
9                   that out. But I think this is a pretty clear  
10                  visual representation of that rim effect.

11                  (TS) I mean, strictly speaking in terms of  
12                  sort of the economics of the local housing  
13                  market if you think about Victoria, whether the  
14                  money came from Vancouver or it came from  
15                  Seattle actually wouldn't make a difference for  
16                  what was going on in that market. And so that  
17                  was my point that in using the term "foreign"  
18                  it's just a question of sort of where one is  
19                  drawing a circle if one is looking at flow of  
20                  funds. In reference to Josh's earlier point  
21                  about sort of the economists, you know, foreign  
22                  is an entity that is where the registered or  
23                  beneficial ownership if you sort of think about  
24                  local branches of foreign corporations is not of  
25                  that country. That's pretty standard, so I'm a

1                    little surprised that Josh says that. But I  
2                    don't think it really -- I think this is sort of  
3                    the economists arguing -- or not economists,  
4                    academics arguing about sort of minutiae. That  
5                    if one accepts the notion that if there are  
6                    large flows of capital whether or not they're  
7                    with immigrants or investors or retirees or  
8                    however that show up in demand real estate in  
9                    the market, then that is going to create a wedge  
10                   between what can be purchased from income earned  
11                   locally in the presence of constraints on supply  
12                   that limit the ability to increase the supply to  
13                   offset that wealth-oriented demand shock.

14                Q    Professor Ley, I thought I saw you leaning  
15                   forward, but did I misread you? Did you have a  
16                   comment? That might be risky to read too much  
17                   into that.

18                A    (DL) I think you're reading too much into it.

19                Q    All right. Well, don't be shy to tell me if you  
20                   want to chime in. While we have this slide up,  
21                   Professor Gordon, I wonder because I didn't  
22                   cover this in questions early and I was going to  
23                   get to at some point some questions around  
24                   policy reforms, changes, whether these are  
25                   levers that involve changes to imposing taxes or

1                   restrictions on ownerships and so forth, this  
2                   display I take it in part we've got two dotted  
3                   vertical lines there to give us the dates and  
4                   try -- I take it part of this is you  
5                   illustrating the effect of two important policy  
6                   developments which you described earlier. Can  
7                   you just tell us what this describes.

8                   A       (JG) Yeah. To me it indicates that, you know,  
9                   these policy measures had fairly substantial  
10                  effects on the real estate markets. Quite  
11                  noticeable effects. Now, you know, there remain  
12                  affordability challenges undoubtedly and there  
13                  are further steps that could be taken in respect  
14                  to some of these measures, which is a separate  
15                  discussion, but nevertheless in terms of efforts  
16                  to kind of cool the market or moderate the price  
17                  growth they have been fairly successful. In  
18                  fact we saw prices decline in late 2018, 2019  
19                  after having seen extremely rapid prices, and  
20                  again the turnaround in prices in both occasions  
21                  coincides with the kind of the announcement of  
22                  these policies. So you know, there's fairly  
23                  clearly an effect on price growth from these  
24                  policies in my view and market participants  
25                  would agree and some market participants don't

1                   like that. And so they haven't liked the  
2                   downward pressure on prices and so that's why  
3                   they want them gone. If there was no price  
4                   effect then people who want price growth would  
5                   not be complaining about them, typically. So I  
6                   think that's part of the evidence that it's had  
7                   a significant impact, and again, you know, we  
8                   could go through the evidence, but I think  
9                   that's quite clear.

10                Q    Why don't I ask Madam Registrar to take down the  
11                   display of that slide. But since we're on that  
12                   point about policy reforms, whether it's  
13                   taxation, whether it's restrictions on who is  
14                   allowed to purchase or hold real estate and how  
15                   had they hold it, I appreciate that's a very  
16                   broad topic that we won't be able to do justice  
17                   to in the time we have, but I would like to  
18                   invite your comments on what you would see as  
19                   the -- whether you think there's a need for  
20                   further policy reforms and, if so, what you see  
21                   is the most valuable and sensible type of policy  
22                   reform to deal with housing affordability in  
23                   particular. Professor Gordon, you were speaking  
24                   last. I'm going to give you the chance to carry  
25                   on with the next part. I think it follows

1                   logically on what you were just addressing.

2           A       (JG) Sure. It would be no secret that I was a  
3                   supporter and am a supporter of the two policies  
4                   that we've just kind of mentioned, the foreign  
5                   buyers tax and the speculation and vacancy tax.  
6                   I think the speculation and vacancy tax was  
7                   probably the more important of the two, but it  
8                   also has some things that could be improved, and  
9                   so if I were to kind of choose a direction for  
10                  future policy reform it would be to strengthen  
11                  and tighten the speculation and vacancy tax.  
12                  One issue is that in the speculation and vacancy  
13                  tax if you rent a portion of your property then  
14                  you can be exempt from the speculation tax as a  
15                  satellite family or a foreign owner. And so  
16                  this means that you could potentially live in a  
17                  mansion, declare very low incomes, pay very  
18                  little in income taxes but have a secondary  
19                  suite and avoid the speculation tax, which is a  
20                  2 percent surtax on your property. And I don't  
21                  think that that makes sense from a policy  
22                  standpoint. We don't give people tax breaks for  
23                  having a secondary suite. We don't allow them  
24                  to avoid their income taxes if they have a  
25                  secondary suite, so I don't think that's a very

1                   good exemption to create. So I would urge that  
2                   to change. But the other issue is that the  
3                   system depends upon a self-reporting system, and  
4                   so this means that if you are creative with your  
5                   finances you might be able to kind of claim some  
6                   sort of tax residency and not declare a  
7                   satellite family situation where you are in fact  
8                   effectively in that type of situation. And so  
9                   the initial policy that I had urged was a system  
10                  where you had a property surtax on more  
11                  expensive homes that could be offset by income  
12                  taxes paid, and in that case the declaration  
13                  that you make, the design of your tax doesn't  
14                  matter as much essentially. If there is a big  
15                  disconnect between the value of your property  
16                  and the income taxes that you're paying and  
17                  you're a working age, non-pension household then  
18                  you're going to pay a surtax, and that would  
19                  have a more comprehensive effect on foreign  
20                  ownership as I've defined it. So those are  
21                  policy moves to consider. But certainly the two  
22                  policy move that have been implemented are  
23                  positive moves and moves in the right direction  
24                  in my view.

25                  Q     Professor Ley, do you have a comments on policy

1 measures?

2 A (DL) Yes. This is something I've been working  
3 on recently looking at some other countries. A  
4 very large study of over a thousand cases of  
5 inflationary housing markets showed the best  
6 policy response if you want to cool the market  
7 is through taxation. So things like the two  
8 taxes that Josh has just been talking about.  
9 Now, having said that, the market sometimes has  
10 a rather short memory. In fact, one author I  
11 read commented that the market has got the  
12 memory of a small child who is being corrected  
13 and so one level of correction is not enough.  
14 And one place that I've been looking at is  
15 Singapore which has been very, very intervention  
16 oriented and there they've had ten rounds of  
17 cooling between 2009 and 2013 which makes, you  
18 know, what we have done look really quite  
19 modest. And they felt that's what it took. And  
20 it's interesting that it is a government in  
21 Singapore which usually comes out very near the  
22 top of the best place to do business in terms of  
23 minimal government expectations, but here they  
24 are being very, very interventionist in their  
25 own housing market with this number of taxes,

1           increasing taxes, introducing new taxes and also  
2           introducing a number of macroprudential measures  
3           which affect the size of a loan relative to the  
4           debt load of a family or relative to the value  
5           of the property, a percentage value. So there's  
6           a range of different demand management  
7           strategies like that. There are also supply  
8           strategies. And policy, I mean, you certainly  
9           hear the proverbial -- Tsur mentioned the German  
10          pension fund. We could use a lot of them here  
11          building social housing, enhancing the supply.  
12          So there are interventions at the demand and the  
13          supply side, but I think -- and that is a big  
14          debate of course, demand compared to supply.  
15          Interventions are needed in both places. But  
16          when it comes to the taxation it may be that one  
17          round is not enough.

18                   (JG) If I could just jump back in. Just a  
19          quick note I would also add is -- and we haven't  
20          talked about this much and I do want to give  
21          Tsur his time here, but when you have extremely  
22          low interest rates, I mean, like we see  
23          currently, that is going to put strong upward  
24          pressure on house prices, and that's what we're  
25          seeing across Canada, which is a bit different

1 from what we saw in 2015 where it was mostly  
2 concentrated on a few urban centres. And when  
3 you have interest rates that are as low as they  
4 are it's quite difficult to restrain price  
5 growth, but nevertheless the steps that I've  
6 indicated in relation to the speculation and  
7 vacancy tax would probably help. But, you know,  
8 the interest rate situation is an important  
9 component of what's going on right now and more  
10 generally, and so I just want to flag that.

11 Q Professor Somerville?

12 A (TS) So I'll focus on policies that are policies  
13 that the provincial government and local  
14 governments can take rather than those policies  
15 that might occur at a national level. What I  
16 would say is that we've taken steps on the  
17 demand side for what we'll call non-local  
18 demand, and while Josh is correct that there are  
19 ways to make that more effective and tighter,  
20 those strike me as being a relatively marginal  
21 area for improvement, that if we're looking on  
22 the monetary side in terms of government  
23 resources those would be best spent addressing  
24 the needs of low-income British Columbians with  
25 supported housing for the homeless at sort of

1                   the very, very bottom end, then more aggressive  
2                   social housing and probably an aggressive and  
3                   changed framework for co-op housing.

4                   Then if you're thinking about sort of more  
5                   straight market issues, undoubtedly we have to  
6                   deal with just the gong show that is the way  
7                   that supply happens particularly in the Lower  
8                   Mainland but not limited to the Lower Mainland.  
9                   And I think that you know, you can get  
10                  economists around the world who have a very,  
11                  very clear consensus that places that have  
12                  regulated, slow to respond and constrained  
13                  supply frameworks in the housing market are  
14                  going to have more expensive housing and more  
15                  challenges with affordability. And there are  
16                  just a large number of studies that have  
17                  addressed this going back to some of my early  
18                  work and other people that have done, and so,  
19                  you know, I would say that that's the more  
20                  fruitful area of making large strides on  
21                  affordability, not that you couldn't get  
22                  beneficial effects by addressing illicit demand,  
23                  which is I think the sort of area that this  
24                  committee is dealing with, and do a better job  
25                  either through higher taxes or better

1 enforcement on the non-local man. I think you  
2 certainly can make strides there, but if you  
3 want to sort of meaningfully address the  
4 challenges in a really, really large way we have  
5 to be more aggressive on the supply side.

6 (JG) I want to jump in. I mean, this a  
7 classic debate here. I think that the emphasis  
8 on the supply side is exaggerated. I don't  
9 think that that would have nearly the effects  
10 that its proponents suggest. I think there's  
11 very weak evidence in fact for a lot of the  
12 supply claims. A lot of that supply literature  
13 is highly, highly problematic. As Tsur's  
14 colleague Tom Davidoff has shown in a number of  
15 the papers, a lot of that literature is very  
16 weak and draws conclusions that it has no basis  
17 doing. The other thing to note is that  
18 there's --

19 Q I'll just jump in there because I think it  
20 connects with the witness who came immediately  
21 before you from CMHC. You've been critical of  
22 the 2018 study that was referred to. I think it  
23 might be appendix E, but in any event part of  
24 that overview report.

25 A (JG) Yeah, I mean, there's a few points to be

1                   made there. I mean, the idea that supply has  
2                   been slow to respond, I mean, we have had record  
3                   levels of construction and starts immediately  
4                   jumped in a massive way in 2016 especially as  
5                   prices start to accelerate. And the interesting  
6                   thing is that as prices start to slow in their  
7                   growth and fall, we see supply in fact start to  
8                   be throttled back. We see supply start to fall,  
9                   and that's because in many cases as a developer  
10                  you're reliant upon people who are going to buy  
11                  presale contracts for new homes and those  
12                  presale buyers expect price growth; they expect  
13                  a return on that investment. And so when that  
14                  expected return disappears, then they don't have  
15                  an interest in the same way in those housing  
16                  units. And so as a result we saw a big pullback  
17                  in the number of condo units that were released  
18                  from 2018 to 2019 as price growth moderated and  
19                  in fact prices started to fall. And so the idea  
20                  that you can build a lot into a housing market  
21                  that has depreciating prices or falling prices I  
22                  think is mistaken. And there is an emerging  
23                  literature around that and the key concept there  
24                  is that, you know, developers are not  
25                  necessarily in a rush to build. They can sit on

1 land and they can wait to time the market for  
2 the right conditions and that's what they'll do  
3 and they routinely do that. And the idea that  
4 municipal governments are standing in the way  
5 again is inaccurate. And so if you want I can  
6 show you a slide on this.

7 Q Maybe -- I think we want to keep the trains  
8 running on schedule as much as we can and that's  
9 part of my job.

10 A (JG) Sure. But anyhow --

11 Q But if that's useful.

12 A (JG) Just let me -- yeah, so that's just a note  
13 of skepticism about supply claims.

14 Q I'm going to pause to see does Professor Ley  
15 want to skate in and be the third man in on this  
16 or let it happen.

17 A (DL) I'll just make a very short comment. The  
18 issue of course is not supply in the abstract  
19 but what kind of supply, and it has to be  
20 affordable supply because what's been happening  
21 in the Vancouver and the Vancouver regional  
22 market is that the supply has been particularly  
23 in Vancouver high-priced condominiums which in  
24 fact are forcing up general land prices. And so  
25 they are leading to pressures to demolish more

1                   affordable housing because the land value has  
2                   grown, and as I heard many years ago someone say  
3                   at a public meeting, this land is too valuable  
4                   to have poor people parked on it. And this is  
5                   what the condoization of the city has done and  
6                   of course a considerable amount of the  
7                   high-priced condos are investment units. They  
8                   are in fact not being bought by end users. So  
9                   you know, we need -- and this in fact makes the  
10                  policy challenge even greater of building  
11                  affordable housing in a high-priced land market.  
12                  But condos have not helped us.

13                Q     Professor Somerville, I'd like to give you the  
14                    chance to respond, but then I am going to tick  
15                    on to the next topic after that.

16                A     (TS) I'll just say that I and the vast majority  
17                    of economists and urban economists disagree with  
18                    Josh and with David on their characterizations  
19                    and sort of just leave it at that.

20                Q     Let me -- I think you're right that it's a  
21                    classic debate and we won't -- we'll leave the  
22                    plot in midair for another installment at  
23                    another venue.

24                                I'd like to turn specifically to the issue  
25                    of money laundering and ask if you feel to what

1 extent you think that we or anyone can isolate  
2 the effect of money laundering on housing  
3 prices.

4 Professor Somerville, maybe I'll start with  
5 you. I know you've in part addressed this  
6 through my touching of the extra panel paper  
7 earlier.

8 A (TS) I think theoretically one could do it, but  
9 practically it's very challenging that if we  
10 have such trouble measuring sort of how much  
11 money laundering is going on, if we have a  
12 challenge of measuring what's the marginal  
13 increase in sort of money in the system then  
14 there would be otherwise. So, for instance, if  
15 you sort of take the model of money laundering  
16 is all local criminals, well, if you didn't have  
17 them engaging in criminal behaviour they would  
18 be doing something else and earning income and  
19 having wealth and spending it as well; right?  
20 You kind of have to ask yourself, what is the  
21 marginal increase in the availability of capital  
22 and income as a result of money laundering above  
23 what we would see otherwise. If one could  
24 measure that, then I think one could start to  
25 make strides with frameworks that we have to

1                    assess demand because then we could start seeing  
2                    where that money is showing up, what part of it  
3                    is investment flows versus what part of it is  
4                    just income, and we have ways to think about  
5                    sort of how investment and wealth is allocated  
6                    in a portfolio context versus how income is  
7                    evaluated. And I think the belief of people who  
8                    work in this field is that sort of wealthy  
9                    criminals are not different than other wealthy  
10                    people, that they have portfolios and  
11                    investments and they might be more weighted to  
12                    bitcoin than perhaps funding venture capital  
13                    firms, but it's not as though all the money goes  
14                    into one area. But I think that first step sort  
15                    of how much, what's the volume of illicit funds  
16                    and nailing that down is kind of the necessary  
17                    precursor step to any of the other pieces which  
18                    I think there are easier and accepted frameworks  
19                    to use.

20                    (DL) One thought I have here and, you know,  
21                    I think we're all agreed that there is no simple  
22                    answer to quantification here. Indeed probably  
23                    there is no answer to quantification here. We  
24                    know in high priced real estate markets there  
25                    will be money laundering. How much is another

1 matter altogether. But one indicator is the  
2 shell company phenomenon, the concealment of  
3 beneficial owners. It is not of course the case  
4 that you always, maybe even you don't often have  
5 a concealment of beneficial owners. But  
6 undoubtedly there is a correlation between the  
7 role of trust companies of shell companies, any  
8 legal form that does indeed conceal who the  
9 beneficial owner is. There is a correlation  
10 between those and money laundering. So I think  
11 a very interesting little study that was done by  
12 Transparency International four or five years  
13 ago was to look at the top 100 sales of property  
14 in the Vancouver area, that is by price, and  
15 find out how many of them concealed the  
16 beneficial owner. And the answer was  
17 45 percent. 45 percent of the most valuable  
18 sales we did not know who the actual owner of  
19 that property was.

20 Now, what proportion of that was money  
21 laundering? Well, I suspect you would have to  
22 have individual examinations of those cases to  
23 find out, but that in a sense does narrow the  
24 population a bit. It does narrow the target in  
25 terms of getting at that sort of figure.

1           Q     Professor Gordon, anything to add on that  
2                   question?  You don't need to.

3           A     (JG) I really want to circle back but I won't.

4           Q     I'm not going to let you.

5           A     (JG) Yeah, I know.  That's fine.  I would just  
6                   say I think when it comes to money laundering  
7                   and the influence of it in the Vancouver market,  
8                   I think -- I mean, you know, I definitely am in  
9                   agreement that measurement issues are extremely  
10                  tricky here, but what I think should be kind of  
11                  thought about a little bit is and part of why in  
12                  fact this panel is sort of relevant is to the  
13                  extent that we're talking about foreign  
14                  ownership and flows of capital from abroad and  
15                  we're talking about flows of capital from  
16                  countries where there is considerable  
17                  corruption, especially at higher echelons in  
18                  terms of how funds can be accumulated, that is I  
19                  think for a lot of people when they refer to  
20                  money laundering they think of it in those  
21                  terms.  And so whether that's the kind of the  
22                  textbook definition or not, that is part of the  
23                  dynamic here which is to what extent are we  
24                  seeing the proceeds of corruption potentially  
25                  being recycled into a market.  And so if that's

1                   seen to be an important component of the funds,  
2                   then the role of money laundering could be quite  
3                   substantial indeed.

4           Q       Professor Gordon, to pick up on that comment,  
5                   because you talk about, I took your comment to  
6                   be the effect that there is -- there may be a  
7                   perception in the public discourse in this area  
8                   that, as you say, a country that there may be a  
9                   sense there's corruption underway and a flow of  
10                  capital and therefore that might connect to  
11                  being an example of money laundering, I suppose  
12                  to sort of put the counter-proposition to you  
13                  though, to the extent that money is coming out  
14                  of a country that may or may not have corruption  
15                  but the source of the money is unknown in  
16                  Canada, is that at one level sort of a question  
17                  that can maybe not be answered, that's evasive  
18                  of answering because we don't know the source of  
19                  wealth from the other country?

20           A       (JG) I mean, that's -- yeah, absolutely. That's  
21                   part of the issue here is we don't have a good  
22                   sense of where that money is necessarily being  
23                   accumulated or how it's being accumulated. The  
24                   Canadian authorities don't track corruption in  
25                   other countries necessarily all that closely in

1 terms of individuals or what have you. So that  
2 would be the issue I would see. And so it would  
3 be hard to disentangle, but the idea that in  
4 certain places significant amounts of money can  
5 be accumulated through the exploitation of a  
6 particular location in the institutional realm  
7 as your role in a public institution, for  
8 example, that is substantial and there's large  
9 literatures on that happening in a number of  
10 different countries and indeed, of course, it  
11 happens in Canada but probably in a less  
12 pronounced way. And, you know, there's  
13 Transparency International on the call and so  
14 they can talk to that more broadly. But  
15 nevertheless, to the extent that that is a  
16 dynamic that occurs, I think that a lot of  
17 people will consider that a form of money  
18 laundering, the recycling of proceeds of  
19 corruption, and so again it's very hard to  
20 measure in any precise way, I would certainly  
21 grant. But that's an important feature here.

22 Q And again, speaking not in terms of anything  
23 that the three of you have said but rather the  
24 level of the perceptions or some of the public  
25 discourse on this, I wonder if you would comment

1                   on the proposition that that sometimes quickly  
2                   devolves to in particular an anti-Chinese racist  
3                   sentiment in sort of painting a certain  
4                   community or country with the brush of apparent  
5                   corruption and apparent illicit funds and  
6                   therefore putting a question mark over a  
7                   community of people here.

8           A       (JG) Would you like me to answer?

9           Q       Sure.

10          A       (JG) I mean, there's a whole lot of things to  
11               say about that. I mean, one thing to say  
12               initially is that, you know, there are large  
13               literatures around issues of corruption in  
14               various countries, well established literatures,  
15               so a recognition of that issue is consistent  
16               with a lot of the evidence that's been gleaned  
17               in careful research. So there's that. The  
18               other thing I'll say is, I mean, for a long time  
19               we didn't gather good data about flows of money  
20               and flows of foreign ownership and patterns of  
21               foreign ownership, and so as a result we needed  
22               to use proxies for kind of where that money  
23               might be coming from and what the patterns might  
24               be over time, and Tsur and David both use that  
25               as a proxy in research and myself as well

1                   because that's what we had to go on the basis of  
2                   and this was an important phenomenon that was  
3                   affecting housing affordability, and so in order  
4                   to build a case, you simply had to look at the  
5                   source of funds.

6                   A further point is when you actually look at  
7                   public support for measures to constrain foreign  
8                   purchasing, they did a poll in August of 2016 on  
9                   support for the foreign buyer tax and they broke  
10                  it down by racial background, and there was  
11                  90 percent support in Vancouver for the foreign  
12                  buyer tax, which is almost unheard of for a  
13                  policy measure. 90 percent support is very,  
14                  very high, and that was essentially equal,  
15                  almost all at 90 percent or 89 percent, across  
16                  the different racial groups.

17                  So this idea that concern around the impact  
18                  of foreign ownership and foreign money on the  
19                  housing market and on housing affordability is  
20                  necessarily related to a kind of racial animus,  
21                  I don't buy that for a moment. That would be  
22                  impugning 90 percent of Vancouverites, and that  
23                  doesn't strike me as plausible whatsoever. And  
24                  impugning folks for disliking their own group, I  
25                  mean, that again, that just doesn't match up

1                   with the evidence. And when we've seen kind of  
2                   people try to produce evidence of this discourse  
3                   creating these types of conditions, mainly it's  
4                   kind of reference to random -- you know, a  
5                   comment in the comment section or something like  
6                   that of an online publication. There's no kind  
7                   of careful evidence that's presented that  
8                   indicates that this has been a major feature of  
9                   what's going on. In fact I think Vancouver and  
10                  BC has come through this kind of intense, trying  
11                  period around housing affordability and the  
12                  influence of foreign money with very few  
13                  incidents that kind of strike people as that.  
14                  But, you know, to the extent that that exists,  
15                  that's awful and that always should be  
16                  condemned, but to shut down a conversation about  
17                  an important element of the affordability  
18                  situation because of a relatively small number  
19                  of incidents or something along those lines I  
20                  don't think is the right course.

21                                 (DL) There's another related feature here  
22                                 and that is, Josh, you just used the terminology  
23                                 "shut down a conversation," and since the mid  
24                                 1980s there have been attempts to shut down the  
25                                 conversation by using precisely the accusation

1                   of racism, and whenever that accusation is used  
2                   the attempt has been in my experience, and I  
3                   have been on the receiving end of such  
4                   accusations, the attempt is always to avoid the  
5                   conversation. And there is a very good response  
6                   to this that was written by a Chinese Canadian  
7                   in the *Georgia Strait* in 2016 -- I can't quite  
8                   remember his name now but if anyone is  
9                   interested I can find it out -- who made exactly  
10                  this point that speaking as a Chinese Canadian  
11                  he was sick and tired of racist accusations from  
12                  those who really do not want to dig beneath the  
13                  surface.

14                  Q     Professor Somerville, did you want to comment on  
15                        this? You're muted.

16                  A     (TS) I keep -- I'm remembering to lower my hand  
17                        but not remembering to unmute myself.  
18                        Apparently I can only one remember one button  
19                        not two buttons.

20                                So one comment and this might have come up  
21                                in Dr. Unger's presentation to you, but in her  
22                                no model the largest source of illicit funds  
23                                from money laundering in BC was domestic crime  
24                                and domestic tax avoidance. And the next, the  
25                                largest foreign source was the United States.

1                   So, you know, when one thinks about what money  
2                   laundering, there's sort of a tendency to think  
3                   picture whatever sort of nefarious foreigner,  
4                   but there's a whole lot of domestic crime that's  
5                   a source of money laundering. Again that's  
6                   subject to whether or not you believe the  
7                   accuracy of her estimates, but that's what her  
8                   model generates. I think that's worth  
9                   remembering.

10                   The second thing is in terms of the ability  
11                   to sort of identify Dr. Unger -- and again I  
12                   apologize for speaking about her work and her  
13                   research and her not being here to either  
14                   correct any mistakes that I make -- she had a  
15                   paper and I don't know where in the Netherlands,  
16                   I can't remember. I think it was in Maastricht  
17                   that they were looking at where they sort of  
18                   were identifying transactions in real estate,  
19                   tying those up with what they perceived to be  
20                   money laundering red flags and then  
21                   cross-referencing that with what the police  
22                   found to be instances of crime. So basically  
23                   sort of the attempt to say how much can we  
24                   identify money laundering with the flags that we  
25                   use. And it turned out to do an extremely poor

1                   job. That the ability to sort of point to  
2                   something and then from that find out that that  
3                   was indeed money laundering tended to be  
4                   extremely inaccurate, extremely poor with the  
5                   exception of something bought by somebody with a  
6                   criminal record turned out to have the highest  
7                   sort of element of predictive accuracy and even  
8                   that was a very, very low level.

9                   So I would like to make sure that the record  
10                  indicates that the things that we think as  
11                  correlates with money laundering don't  
12                  necessarily do a good predictive job because  
13                  there's just so much noise in the system, and  
14                  it's worth remembering that in any sort of  
15                  recommendation or steps that are taken at least  
16                  as it relates to flags and indicators of  
17                  potential money laundering and real estate  
18                  transactions.

19               MR. MARTLAND: Thank you. Mr. Commissioner, I'm  
20               quite mindful of the clock and just to maybe  
21               pause at that point. I think that completes the  
22               questions I have for the panel. The  
23               estimates -- or rather the updates I have on  
24               timing are that the province may have a  
25               few minutes but not the full 15 that was sought.

1 I welcome my friends from the province to advise  
2 if there is a different answer. I haven't heard  
3 from Mr. Usher whether he still has questions.  
4 The civil liberties has a 20-minute allocation  
5 which they do expect to use. So maybe I can ask  
6 Mr. Usher to indicate if he has questions and if  
7 so how long, and then Mr. Commissioner your  
8 preference should govern whether we take a break  
9 or simply carry on through the questions.

10 MR. USHER: Yes, Mr. Martland, I just have -- most of  
11 what I want to talk about has been very nicely  
12 covered this morning, so I really only have a  
13 couple of questions that may take just a  
14 few minutes.

15 MR. MARTLAND: Thank you.

16 THE COMMISSIONER: Thank you, Mr. Martland, and  
17 Mr. Usher. My sensitivity expressed yesterday  
18 really had do with those working feverishly  
19 behind the scenes and their need for a break,  
20 but if we're down to -- unless anyone sticks up  
21 their hand and asks for a break, I think we may  
22 as well press on through. It doesn't sound as  
23 though we have a great deal longer to go. All  
24 right?

25 MR. MARTLAND: Thank you.

1 THE COMMISSIONER: So you've finished, Mr. Martland,  
2 have you?

3 MR. MARTLAND: I have, thank you.

4 THE COMMISSIONER: Thank you. I'll call, then, on  
5 Ms. Stratton on behalf of the province, who  
6 originally was allocated 15 minutes but I gather  
7 has something less than that.

8 MS. STRATTON: Thank you, Mr. Commissioner. Yes, the  
9 vast majority of topics I wanted to cover have  
10 been asked by Mr. Martland, so I actually just  
11 have one clarifying question for Professor  
12 Gordon.

13 **EXAMINATION BY MS. STRATTON:**

14 Q When you provided your definition of foreign  
15 ownership I believe you said that that occurs  
16 when housing is purchased primarily with foreign  
17 income or income earned abroad that is not  
18 declared as income for Canadian tax purposes.  
19 Is that accurate?

20 A (JG) Correct. I mean --

21 Q So my --

22 A (JG) Close enough, yeah.

23 Q Well, feel free to correct me if that wasn't  
24 quite right.

25 A (JG) No, that's right, yeah.

1           Q     So I just have one clarifying question regarding  
2                   the income that's not taxed in Canada.  When you  
3                   say that are you referring to illegal tax  
4                   evasion or illegal activity or a combination of  
5                   both?

6           A     (JG) It can be illegal and it can -- and  
7                   sometimes you can have aggressive tax filings  
8                   that are deemed legal.  So there is tax  
9                   avoidance and tax evasion that is often  
10                  happening.  But yes, I mean that's a part of the  
11                  reason in fact why you would want something like  
12                  the speculation tax and measures to address it  
13                  that way is because in certain situations, you  
14                  know, having a family who resides here and yet  
15                  the breadwinner earns abroad and doesn't pay  
16                  domestic income taxes on the global income is a  
17                  legal tax filing, so yes, it can comprise of  
18                  both.

19          Q     Thank you.  And it's fair to say your definition  
20                  doesn't distinguish between those?

21          A     (JG) No.

22          MS. STRATTON:  Thank you.  Those are all my  
23                  questions, Mr. Commissioner.

24          THE COMMISSIONER:  Thank you, Ms. Stratton.  Now call  
25                  on Mr. Usher for the Society of Notaries Public

1                   of BC.

2                   MR. USHER: Thank you, Mr. Commissioner.

3                   **EXAMINATION BY MR. USHER:**

4                   Q     A couple of questions just on transactions. We  
5                   heard about international wealth, the tremendous  
6                   growth in it, the flow of that wealth, including  
7                   the wealth that arrived in BC via things like  
8                   investor programs. Does any of your research  
9                   show that that wealth is related to the  
10                  predicate crimes that are a necessary part of  
11                  the crime of money laundering? In other words,  
12                  is there research that gives any useful  
13                  distinction between the sources of that wealth  
14                  that would suggest that that wealth in fact was  
15                  due to a predicate offence that would result in  
16                  what we would -- in Canadian crime of money  
17                  laundering?

18                  A     (TS) Who is that question for?

19                  Q     Well, any of you. You've all done research over  
20                  this whole area.

21                  A     (DL) Well, I'll start the ball rolling here. I  
22                  don't think the response will surprise you very  
23                  much that we do not have a clear handle on  
24                  wealth sources when international wealth comes  
25                  here and nor do we have -- and this is part of

1                   the compliance issue, nor do we have many  
2                   questions being asked about the source of that  
3                   wealth. The only indicators, and I go back to  
4                   this rather blunt tool I mentioned a few minutes  
5                   ago, is to what extent is wealth -- is capital  
6                   entering the country without recognition of  
7                   beneficial owners and that is a correlate of  
8                   wealth that has been generated illegally, but  
9                   there is far, far from a one to one  
10                  relationship. So that we know within a flow of  
11                  capital that comes from shell companies that  
12                  there is going to be some money laundering, but  
13                  we cannot specify without investigation which  
14                  particular case represents money laundering.

15                  Q    Thank you. A term that seems to be getting  
16                      widely used in articles and literature is the  
17                      idea of the financialization. It's not a word  
18                      that's come up here and I want to appreciate  
19                      your thoughts is that a useful way to think when  
20                      people talk about the financialization of real  
21                      estate, real estate turning from a resource  
22                      that's meant for a place to live as opposed to  
23                      becoming investment. So is that a useful term?  
24                      And I wonder if any of you have a comment on  
25                      this term "financialization."

1           A       (JG) Tsur.

2           Q       Go ahead, Josh.

3           A       (JG) No, I said Tsur, you take that one.

4                       (TS) Okay. I don't find it a particularly  
5           useful term because real estate as an investment  
6           asset seems to go back as long as there have  
7           been landowners and as long as there have been  
8           tenants. And the example I always use of this  
9           Mr. Potter in *It's a Wonderful Life* engaged in  
10          the financialization of real estate assets in  
11          the creation of Pottersville. So this is not  
12          new. Now, whether or not, you know, perhaps the  
13          recent experience where an environment with  
14          very, very low interest rates and rising house  
15          prices has created an incentive for people to  
16          own real estate and not earn cash flow from it  
17          but speculate on rising house prices, that  
18          perhaps is a relatively somewhat different  
19          phenomenon. The problem with that is that's  
20          basically sort of taking a short period of  
21          history and then generalizing it. If you were  
22          to have bought two years ago one of those  
23          multi-million dollar condos in New York which  
24          are supposed to be this great investment they  
25          have fallen over 20 percent since then. So

1                   asset prices rise and asset prices do fall as  
2                   long as one sort of gives enough period of  
3                   analysis. And certainly since 2016 you would  
4                   have been far better off being a venture  
5                   capitalist and investing in startups in Silicon  
6                   Valley than any real estate anywhere.

7                   Q     Thank you. We talked earlier about  
8                   affordability and what measures of that, and I  
9                   wondering is there research that any of you  
10                  carried out or have known that relates in  
11                  looking more precisely purchases, and for  
12                  example understanding in the purchase market  
13                  under the transactions how many, if you like,  
14                  are starting from zero in the sense people are  
15                  starting from savings and income or how many of  
16                  the transactions are really, if you like,  
17                  leap-frogging on capital built up in land from  
18                  previous purchases. Any comments on that? Has  
19                  anyone done that kind of research?

20                 A     (TS) This will fall on me again to answer. So,  
21                  you know, certainly there's when one looks at  
22                  first-time buyers one is looking at groups where  
23                  the standard presumption is that is wealth that  
24                  they have then accumulated and then been their  
25                  purchase, and so looking at entry-level units

1                   would be a way that people have historically  
2                   gone about doing that. The problem, and this is  
3                   something that Josh highlighted, is that you  
4                   have transfers between people that are often a  
5                   source of their wealth, so rather than income  
6                   generated wealth, it's for instance within  
7                   family transfers. I think, you know, many,  
8                   many years ago I was using the survey of  
9                   consumer financing in the United States to look  
10                  at the transition of from renters to owners and  
11                  what was driving that, and you know, people made  
12                  that transition with wealth, but it turned out  
13                  the biggest predictor was actually getting  
14                  married. That was really -- you know, once you  
15                  controlled for people's income the aspect that  
16                  mattered in the traditional sense was the  
17                  household formation choice and marriage. But  
18                  that was across the United States looking at a  
19                  lot of markets where the formation of capital  
20                  would not have been nearly as challenging as it  
21                  is in the high house price markets. So again,  
22                  you know, I don't know anyone who has sort of  
23                  looked at that just limited to a particular  
24                  market. That may be easier to do now with the  
25                  growth of sort of let's return big data and the

1 ability to link various kind of commercial data  
2 sets generated by smartphones and other types of  
3 data sources.

4 Q Thank you. Mr. Gordon, in regards to the  
5 speculation tax we now have some reports on that  
6 and I guess there's two questions I've got for  
7 you as you look back on the success or not of  
8 that program. One is the payment of the  
9 significant proportion of people who are paying  
10 speculation tax who are in fact BC residents,  
11 and then a second question more generally, the  
12 speculation tax of course is restricted by area,  
13 so for example, you pay in Kelowna, you don't  
14 pay in Penticton, or for example Vancouver  
15 Island you pay in Lantzville but you don't pay  
16 just down the road.

17 A (TS) Up the road. Up the road.

18 Q Up the road. Good point.

19 A (JG) So kind of what's the justification for  
20 that? Is that --

21 Q No, just now that we see the results we see  
22 that -- I think one report I saw suggested that  
23 20 percent of the speculation tax was being paid  
24 by BC residents. Is that --

25 A (JG) So yeah, so the interesting thing to look

1                   at there is not just the kind of the number of  
2                   properties but the amount that's being paid;  
3                   right? So part of the issue is that foreign  
4                   owners in satellite families will be paying a  
5                   2 percent rate whereas BC tax resident owners  
6                   would be paying 0.5 percent rate and the  
7                   properties tend to be much less expensive, so  
8                   the average amount I think a BC tax resident  
9                   pays in term of the speculation tax is -- I  
10                  could be wrong, so don't nail this to the wall,  
11                  but I think it's about like 2,500 or something  
12                  like that, whereas it's about 16,000 or  
13                  something like that. Again it may have changed  
14                  for foreign owners or satellite families. So  
15                  when you look at the amounts that's being  
16                  collected the vast majority is from foreign  
17                  owners and satellite families. But again what I  
18                  would do there, and I have to be a little  
19                  cautious on how I pronounce on this topic for a  
20                  range of reasons, but is these exemptions that  
21                  relate to the rental exemption, a relatively  
22                  modest proportion of self-declared satellite  
23                  families pay the tax because of these rental  
24                  exemptions and so were they narrowed or  
25                  eliminated those proportions would change quite

1                   sharply and again the funds would become  
2                   overwhelmingly from kind of that source of  
3                   foreign-owned or satellite family situations.

4           Q       And any comments on the geographic areas?

5           A       (JG) Yeah. So I mean, the big idea there was  
6                   that, you know, you had intense problems in  
7                   urban BC, like the major urban centres, and that  
8                   you wanted to kind of discourage a resort-type  
9                   dynamic in those areas. And by doing so you  
10                  would also actually have an effect on areas that  
11                  weren't directly affected, right, because real  
12                  estate markets are connected through the ripple  
13                  effect and other forces. And so you wanted to  
14                  target it at kind of the areas where you thought  
15                  that this kind of pattern of partly low vacancy  
16                  but also potential foreign ownership would be  
17                  most pronounced or potential for that in the  
18                  future and target those areas, and then you  
19                  would affect other areas thereby. And I think  
20                  if you look at the data you would probably find  
21                  that kind of prices slowed in the areas just  
22                  outside, too, that there isn't a kind of sharp  
23                  demarcation in terms of price effect from kind  
24                  of areas that are directly effected and those  
25                  that are not. But that would be the logic and I

1                   understand the logic and I think it makes some  
2                   sense.

3                   MR. USHER: Thank you. That's all my questions,  
4                   Mr. Commissioner.

5                   THE COMMISSIONER: Thank you, Mr. Usher. Now, I'll  
6                   call on Ms. Magonet from the British Columbia  
7                   Civil Liberties Association, who has been  
8                   allocated 20 minutes.

9                   MS. MAGONET: Thank you, Mr. Commissioner.

10                   **EXAMINATION BY MS. MAGONET:**

11                   Q     Can the witnesses hear me? I see nodding heads.  
12                   Excellent. Thank you. My first question is for  
13                   Professor Somerville, and I just wanted to see  
14                   if I had your evidence from earlier correctly.  
15                   Is it your perspective that the best way to make  
16                   strides in affordable housing in BC would be for  
17                   the government to invest in housing for the most  
18                   vulnerable residents?

19                   A     (TS) I think it depends on what you mean by  
20                   affordable and for whom. So, you know, my  
21                   personal opinion is that the people who face the  
22                   most difficult challenges around suitable  
23                   housing and affordable housing are poor folk and  
24                   that whether or not somebody can buy the house  
25                   they want in the city of Vancouver or need to buy

1                   it in Coquitlam strikes me as a smaller issue  
2                   than people for whom accessing housing period is  
3                   a challenge. For people at the bottom end of  
4                   the market there is a market process that helps  
5                   which economists refer to as filtering, but it  
6                   is not necessarily a quick fix, and there are  
7                   people for whom their incomes are so low that  
8                   any type of market housing they wouldn't be able  
9                   to afford. And, therefore, to help those people  
10                  it's going to need a direct intervention on the  
11                  part of the government and in terms of  
12                  constructing or enabling the construction of  
13                  more housing that is then subsidized for those  
14                  individuals and households.

15                Q    Thank you. And so for those individuals, the  
16                    poorer members of our community, that type of  
17                    intervention would be far more effective than  
18                    trying to target money laundering or foreign  
19                    buyers in terms of addressing housing  
20                    affordability. Is that your perspective?

21                A    (TS) I think in terms of the short, you know --  
22                    I'm not sure in a long run, you know, how  
23                    everything plays out in the long run because  
24                    there are sort of lots of endogenous effects,  
25                    but my sense is that, you know, if one was to

1           take the data or the report, the results from  
2           the report of the expert panel on money  
3           laundering and one was to then say that money  
4           laundering was contributing to 5 percent higher  
5           house prices in Vancouver, lowering house prices  
6           by 5 percent would not help those people.

7           Q     Thank you. My next questions are for Professor  
8           Gordon. My first question for you concerns a  
9           slide in your PowerPoint.

10                     I wonder, Madam Registrar, if you would be  
11           able to pull up the PowerPoint and go for the  
12           slide on the 13th page. I forgotten the  
13           exhibit number. My apologies.

14           THE REGISTRAR: That's exhibit 639.

15           MS. MAGONET: Thank you, Madam Registrar.

16           Q     Professor Gordon, I just have a question about  
17           this slide here. On the graph, the graph starts  
18           to go downwards when the foreign buyers tax is  
19           introduced and the speculation tax is announced.  
20           I just want to make sure I understood it  
21           properly. My understanding is that this doesn't  
22           mean that housing prices have dropped in early  
23           2016 and then again in -- or sorry, maybe that's  
24           early to mid 2016 and early 2018, but rather  
25           that the rate of appreciation of houses have

1                   slowed. Is that accurate?

2           A       (JG) Sure. I can answer that. Just before I  
3                   do, just to circle back to the question that you  
4                   just posed, you posed kind of investment in  
5                   affordable housing in contradistinction or kind  
6                   of as an alternative to the taxes that we're  
7                   talking about or measures to kind of limit  
8                   foreign ownership. The irony there is that the  
9                   funds from the speculation and vacancy tax are  
10                  going to be used for affordable housing. So we  
11                  can actually do both and the speculation and  
12                  vacancy tax helps us help those most vulnerable  
13                  members of our society. So anyhow, that's just  
14                  one note. In terms of post-foreign buyers tax,  
15                  you're right that prices did not decline in  
16                  absolutely terms. The rate of price growth  
17                  slowed. However, following the speculation and  
18                  vacancy tax in the Fraser Valley and Vancouver  
19                  markets prices did in fact absolutely fall in  
20                  absolutely terms. So there was some effect.  
21                  But again the standard for policy is not  
22                  necessarily, you know, do you achieve price  
23                  reductions in absolutely terms with one policy  
24                  alone, but if it does limit price appreciation  
25                  that is a valuable policy ambition and outcome.

1           Q     Thank you. My next question for you, Professor  
2                   Gordon, concerns your research on the decoupling  
3                   of the Vancouver housing market, so the fact  
4                   that there's this big distinction between income  
5                   levels and housing prices. And it's my  
6                   understanding that in your research -- we can go  
7                   to this paper if it would be helpful to you but  
8                   in your March [indiscernible] paper you say that  
9                   one thing that you don't account for in your  
10                  research is amenities, so the fact that somebody  
11                  might be willing to spend more of their income  
12                  in order to be able to live in a nicer place.  
13                  Is that accurate?

14           A     (JG) Amenities is hard to kind of control for,  
15                  but yes, amenities would potentially result in  
16                  somebody spending a larger share, but I think I  
17                  see where you're going with this. Nevertheless,  
18                  if you look at kind of the rates of kind of low  
19                  income ownership, so in the paper that was  
20                  published in November, the patterns of low  
21                  income ownership cannot be accounted for by that  
22                  factor. I can say that with a lot of confidence  
23                  under sworn oath.

24           Q     Thank you. I have just one more question for  
25                  you, Professor Gordon. I just wanted to make

1                   sure I had your evidence from earlier correctly.  
2                   Were you suggesting that high levels of foreign  
3                   investment in BC real estate were necessarily  
4                   correlated with high levels of dirty money or  
5                   money laundering in BC real estate?

6           A       (JG) No, there's no necessary correlation. No,  
7                   I wouldn't characterize it as such. I think  
8                   that, you know, to the extent that the funds are  
9                   from places where there may be issues in terms  
10                  of corruption and so on we might be more  
11                  concerned about that, but there is no direct  
12                  kind of one-to-one correlation and I wouldn't  
13                  make that claim.

14          Q       Okay. Thank you. My next series of questions  
15                  could be for anybody in the panel. In some of  
16                  the -- in the overview report regarding Lower  
17                  Mainland housing prices there's a study by Andy  
18                  Yan about how home sales in the west side  
19                  neighbourhoods in Vancouver. Are the panelists  
20                  familiar with this study? We could go to it if  
21                  it would be helpful.

22          A       (DL) Yeah, I know that.

23                               (TS) It would probably help to go to it.

24          Q       Oh, sure.

25          A       (TS) My brain no longer keeps track of the

1                    endless pages of output on housing affordability  
2                    in Vancouver.

3                    Q     Completely understood.

4                                       Madam Registrar, if you could please go to  
5                    open the overview report on Lower Mainland  
6                    housing prices to appendix P. And I think the  
7                    best page to go to would probably be page 475.  
8                    Let's see. Well, maybe this is a good place to  
9                    start.

10                                       It's my understanding that in this study  
11                    Mr. Yan looked at sales --

12                    A     (TS) Oh, okay, this one. I know which one it  
13                    is. Okay. Go ahead. Keep going.

14                    Q     Okay, right. So my understanding is that over a  
15                    six-month period Mr. Yan looked at the ownership  
16                    patterns of single family home sales in the west  
17                    side neighbourhoods in Vancouver and found that  
18                    66 percent of the buyers during that period had  
19                    non-anglicized Chinese names. Is that your  
20                    understanding of the research?

21                    A     (DL) Yeah.

22                    Q     And would the panelists agree that just because  
23                    somebody has a non-anglicized Chinese name, that  
24                    doesn't necessarily mean that they're not a  
25                    citizen or that they're even a recent immigrant?

1 I'm seeing nodding, but if you could say  
2 something that would be helpful for the  
3 transcript.

4 A (DL) Not necessarily. Not necessarily.

5 (TS) Right, and I would say that I don't  
6 know what the correlation has been over time in  
7 which names people use when they register. One  
8 could go back and look at this. And nor do I  
9 know sort of the extent to which Mandarin versus  
10 Cantonese names and how that ratio has changed  
11 over time. So I would say I'm really flying  
12 blind on the ability to make any kind of  
13 statement one way or the other.

14 Q Would it be the view of the panelists that this  
15 study may not be able to tell us very much about  
16 foreign ownership in this area of Vancouver?

17 A (JG) Let me say two things. First, I would  
18 think it would be very appropriate if Andy Yan  
19 could answer this question. I think his  
20 answer would be useful and illuminative. The  
21 second thing I'll say is that we have data now  
22 from the Canadian Housing Statistics Program and  
23 it provides data on non-resident ownership of  
24 properties in the UBC area, and that rate, which  
25 is at 12 percent, is the highest rate in the

1 data for detached houses, and Andy is primarily  
2 looking at detached houses. And if you look at  
3 the price to income ratio, so the average price  
4 in that area is about \$7 million for a detached  
5 house. And the average income -- or the median  
6 income, I should say, the median income of the  
7 people who own those properties that are of  
8 working age that are non-pension is -- drum  
9 roll -- around 100,000. So you have a price to  
10 income ratio of about 70 to 1. So that's  
11 indicative of a lot of money coming in from  
12 abroad. So again, I would want Andy to kind of  
13 answer this, but I think subsequent data has  
14 borne out his contention that this might be  
15 indicative of funds being flowing in from  
16 abroad.

17 (TS) So I would answer that correlation is  
18 not causation, number 1. And number 2, there's  
19 what's known as the -- I think it's the ecology  
20 fallacy, which is trying to infer individual  
21 behaviour from group averages, which is somewhat  
22 problematic. So, you know, but if you look at  
23 the data from the foreign buyers tax we do  
24 observe that foreign buyers, foreign owners  
25 acquire properties of higher value. When you

1                    look at the Canadian Housing Statistics Program  
2                    data, foreign owners their share is higher in  
3                    higher value properties and it's higher in newer  
4                    properties. So then you can sort of do with  
5                    that what you prefer, but I think, you know,  
6                    this particular study is one of those things  
7                    where it correlates with people's perceptions,  
8                    but it doesn't prove whether or not those are  
9                    true or not.

10            Q    Thank you. Oh, sorry, I believe I cut someone  
11                    off.

12            A    (DL) It's worth adding that, I mean, this is  
13                    indicative of the period when we had such poor  
14                    data in this province that you really had to use  
15                    proxies. You had to patch together an argument  
16                    from incomplete sources, and this is one area  
17                    where the Canadian Housing Statistics Program  
18                    has actually now started to fill those gaps. So  
19                    that the inferential leaps that may be needed  
20                    when you see a map like that, we've got better  
21                    knowledge now than we did then because we've got  
22                    better data.

23            Q    Thank you. My last series of questions are for  
24                    Professor Somerville.

25                    Madam Registrar, I would ask if you could

1                   please go to appendix X of this report. And  
2                   actually I think it's specifically page -- oh,  
3                   no, I'm mistaken. It's page 631.

4                   So I believe you said earlier, Professor  
5                   Somerville, that this is a description of the  
6                   research paper that appears immediately before  
7                   this in this report but that's written more for  
8                   a general audience regarding some of your  
9                   research about the impact of the suspension of  
10                  the immigrant investor program on the housing  
11                  crisis in destination neighbourhoods for wealthy  
12                  immigrants. Is that accurate?

13                 A     (TS) That's correct.

14                 Q     And my understanding is that that research had  
15                  to do with a program that allowed investor  
16                  immigrants to have a pathway to becoming  
17                  citizens in Canada, so it had to do with foreign  
18                  entry but not specifically foreign buyers. Is  
19                  that accurate?

20                 A     (TS) Yeah. I would say that that was -- it was  
21                  asking the question about sort of -- it was  
22                  blending a question of immigration and wealth  
23                  together in ways that we couldn't -- and I think  
24                  we make clear in the paper -- couldn't fully  
25                  separate apart.

1           Q     Thank you.  So would you say that the results of  
2                   that paper may be only of limited value in  
3                   determining the value of something like a  
4                   foreign buyers tax which specifically targets  
5                   people who aren't citizens or aren't permanent  
6                   residents?

7           A     (TS) So, you know, I think I would look at it in  
8                   the context of the discussions at that period.  
9                   You know, there was a lot of -- there was a lot  
10                  of clammer that investor immigrants were causing  
11                  all these kinds of trouble, I think.  Ian Young,  
12                  who is a reporter with, or was at the time, or  
13                  opinion writer for the *South China Morning Post*,  
14                  was very, very adamant about this and sort of  
15                  created a lot of noise around this.

16                         So I think you can think of this in terms of  
17                         specifically the effects of that program.  I  
18                         think they shed light on the foreign -- on  
19                         the -- less on the foreign buyers tax because  
20                         it's really not addressing people without -- or  
21                         non-Canadian persons, right, because this  
22                         program is essentially people who would have  
23                         status as Canadian persons, but it's blending  
24                         the inflow of wealth and people to  
25                         neighbourhoods and differentiating across

1 neighbourhoods where those concentrations are  
2 higher or lower. I don't know if that answers  
3 your question.

4 Q No, that's very helpful. Thank you. I have  
5 just one last question.

6 Madam Registrar, if you could please go to  
7 page 634 of the overview report. This is in the  
8 same appendix. And if you could scroll down a  
9 bit more. Oh, sorry. Yes, here's the sentence  
10 I'm looking for. In your discussion of the  
11 policy implications, Professor Somerville, you  
12 write:

13 "Foreign investment alone cannot explain  
14 the unprecedented 30 percent and up run-up  
15 in home values in Vancouver over the past  
16 year."

17 Then on the next page you go on to explain many  
18 other factors that can help explain the  
19 unaffordability during this period of Vancouver  
20 housing. So I take it that foreign investment  
21 according to your research here can't tell the  
22 full story. Is that your perspective?

23 A (TS) Yeah, it's probably a little bit of a  
24 strong statement given that we were just looking  
25 at investor immigrants, but I think we're making

1                   the inference from investor immigrants that if  
2                   cancelling that program had such a sort of small  
3                   relative effect on housing prices then it seemed  
4                   unlikely that foreign investment overall was the  
5                   sort of leading driver of what's the movements  
6                   in house prices. I think this correlates with  
7                   things that the panel heard from Dr. ab Iorwerth  
8                   from CMHC about the sort of relative size of the  
9                   foreign component relative to the overall  
10                  housing market that it's kind of hard to put  
11                  those two together. One can under sort of  
12                  certain assumptions about demand curves get  
13                  there, but I think it's pretty hard, and I think  
14                  understanding this in the context of a debate  
15                  where, you know, there were people who were  
16                  essentially saying it's all foreigners and it's  
17                  all foreign investment, and I think our point  
18                  here was to highlight that there are a variety  
19                  of factors that are contributing to that. That  
20                  doesn't necessarily mean that reducing foreign  
21                  investment would have positive effects on  
22                  affordability but just that expecting that to  
23                  solve affordability would be misplaced.

24                                 (JG) I want to jump in here. I'm going to  
25                                 read you a quote here --

1 (TS) We're quoting what I said five years  
2 ago that I can't remember. That's excellent.

3 (JG):

4 "'The theory that Vancouver's land  
5 constraints and population increase were  
6 the main factors behind the price  
7 increases made sense until prices jumped  
8 sharply by around 20 percent during 2015,'  
9 says Tsur Somerville, another Sauder  
10 professor. 'The only thing that you can  
11 point to that's changed are two things:  
12 one, the lowering of the --'"

13 (TS) Wait, is that in this --

14 (JS) Wait, let me finish. Let me  
15 finish.

16 (TS) Josh, is that in this -- Josh,  
17 is that here or that somewhere else that  
18 you're quoting me from?

19 (JG) Vancouver. You are talking  
20 Vancouver. "The only thing --"

21 (TS) No, no, but is that here in this  
22 thing, or are you quoting me from some  
23 place else?

24 (JG) This is from a BIV article from  
25 2016.

1 (TS) Oh, okay.

2 (JG):

3 "The only thing that you can point to  
4 that's changed are two things: one, the  
5 lowering of the Canadian dollar, and two,  
6 a massive change in the official currency  
7 reserves in China,' Somerville said,  
8 referring to a sharp increase in wealthy  
9 individuals and companies trying to get  
10 money out of China in response to that  
11 country's economic slowdown."

12 So in 2016, in February of that year, there was  
13 a sharp increase of about 20 percent in prices  
14 in 2015, and the person who just answered that  
15 question attributed it basically entirely to  
16 effects of the depreciating Canadian dollar and  
17 money flowing out of China with both --

18 (TS) But Josh, in 2015 housing was  
19 unaffordable, so the point of this article is  
20 saying whether or not it's affordable or  
21 unaffordable, not necessarily ascribing the  
22 short run changes.

23 (JG) But you just made a claim about a  
24 20 percent jump in prices that related to that,  
25 and so I just want to clarify for the record

1                   that this was a view that was held by the person  
2                   who just answered the question that was trying  
3                   to downplay that view.

4           MR. MARTLAND: Mr. Commissioner, it's unconventional  
5           to object after --

6           THE WITNESS: (TS) Yeah. Excuse me, why do I have to  
7           answer Josh's questions?

8                   (JG) You don't. You don't.

9                   (TS) Josh, you're bringing something out of  
10           context and asking me to remember when there is  
11           a difference between what is the level of  
12           affordability and what is the short run change  
13           in affordability, and I don't think anyone would  
14           disagree that if you have a large inflow of  
15           capital in the short run that that would have  
16           movements; right?

17                   (JG) Agreed, agreed.

18                   (TS) That's fine. But that's not saying  
19           whether not foreign investment overall is  
20           responsible for the affordability problem, which  
21           is what the article is talking about, so I think  
22           you're confusing a level with a change article  
23           in a short run.

24           THE COMMISSIONER: I think we're sort of -- the  
25           evidence is becoming somewhat characteristic of

1                   a debate rather than a panel giving evidence and  
2                   I'd like to return to Ms. Magonet and ensure  
3                   that she gets a chance to conclude her  
4                   examination I think of Professor Somerville.

5           THE WITNESS: (TS) My apologies, Mr. Commissioner.

6           THE COMMISSIONER: No, I don't think anyone should  
7                   apologize. I think it's very nice to have a  
8                   very robust discussion of the issues, but I  
9                   think maybe it's time just to get back to the  
10                  questions Ms. Magonet was asking. Thank you.

11          MS. MAGONET: Thank you, Mr. Commissioner. I have no  
12                  further questions.

13          THE COMMISSIONER: All right. Well, I'd like to  
14                  thank -- I'm sorry. Before we finish, anything  
15                  arising, Mr. Usher?

16          MR. USHER: Not at this time. Thank you.

17          THE COMMISSIONER: Ms. Stratton?

18          MS. STRATTON: Nothing arising, thank you.

19          THE COMMISSIONER: Mr. Martland?

20          MR. MARTLAND: No, thank you. Mr. Commissioner,  
21                  nothing more.

22          THE COMMISSIONER: All right. I would like to thank  
23                  the panelists, Professors Gordon, Ley and  
24                  Somerville, for a very vigorous discussion on  
25                  an exceedingly interesting topic and one which I

1 think will undoubtedly consume interest for  
2 many years to come. As I said, it did assume  
3 some of the characteristics of a very vigorous  
4 debate but that's not at all a bad thing. I  
5 think that's very helpful to our process. So  
6 thank you all very much for the time you've  
7 taken and the expertise that you've provided us  
8 with. I think it will be very helpful to the  
9 commission.

10 I think now we can adjourn, Mr. Martland, to  
11 tomorrow at 9:30, or are we sitting at an  
12 earlier hour tomorrow?

13 MR. MARTLAND: We're sitting at 9:30, but we're  
14 finishing at 1 o'clock tomorrow, which I think  
15 some participant haven't heard that very often,  
16 so they'll be happy. Thank you.

17 THE COMMISSIONER: Fair enough. All right. Thank  
18 you. We will adjourn until tomorrow at 9:30.

19 THE REGISTRAR: The hearing is now adjourned until  
20 February 19, 2021 at 9:30 a.m. Thank you.

21 **(WITNESSES EXCUSED)**

22 **(PROCEEDINGS ADJOURNED AT 1:43 P.M. TO FEBRUARY 19,**  
23 **2021)**

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