

**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 there are factors such as rising income
2 inequality that we explored, so the argument
3 being that if you have more high income
4 households in Vancouver who tend to be
5 homeowners, then you would have more demand for
6 housing. We explored whether there was more
7 investor demand for housing, so these were all
8 factors that we looked on on the demand side for
9 housing.

10 Now, the other aspect that we then went into
11 was to try and understand why there was this
12 persistent increase, and that led us more to
13 look at the supply side of housing. So as I
14 said --

15 MS. PATEL: I just, Dr. ab Iorwerth, I just want to
16 note for -- your audio is perfectly clear and
17 uninterrupted, but we've lost your video.
18 Mr. Commissioner, I'm content to continue with
19 the audio if you are, but if you wanted us to
20 take a quick break and see if we could correct
21 that, I'm in your hands.

22 THE COMMISSIONER: I have Dr. ab Iorwerth on gallery
23 view just not on speaker view. So I'm fine to
24 continue in that fashion. I don't know why
25 that's the case, but maybe our technical

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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