PROPERTY REPORT

Luxury real estate, architecture and design in Asia

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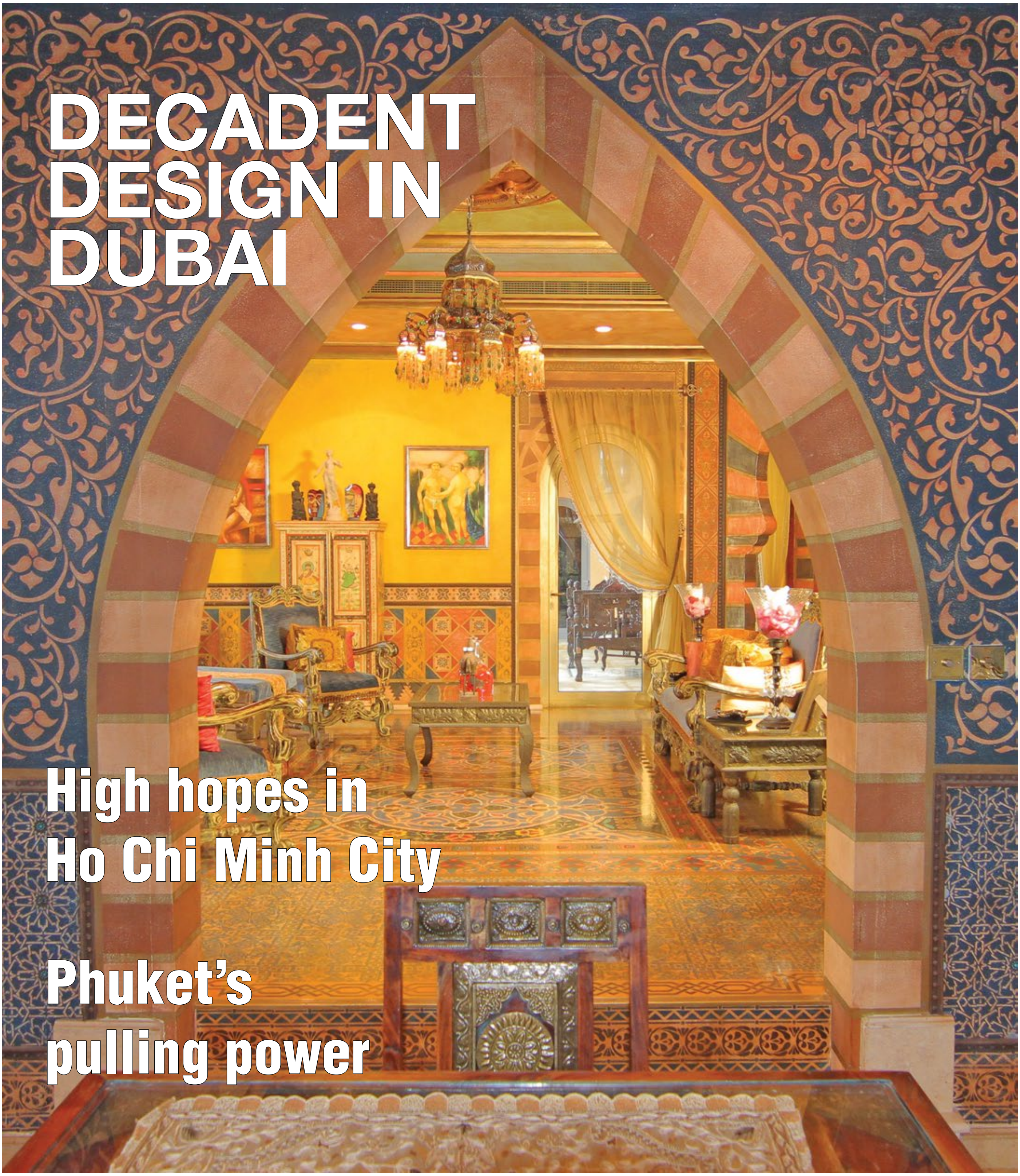

DECADENT DESIGN IN DUBAI

High hopes in Ho Chi Minh City

Phuket's pulling power

Ghostbusters target Canada's Chinese buyers

BY TIMOTHY FRANCE

New immigration and taxation rules could force wealthy Chinese investors out of Canadian property markets

VANCOUVER SKYLINE. THE CITY IS HOME TO CANADA'S LARGEST ASIAN POPULATION

Canada ended its millionaire migrant programme in June, as the Conservative government tightens up immigration rules and global taxation policies. The Federal Investor Immigrant Programme (IIP) was designed to attract high-net-worth migrants to settle in Canada, and opened the doors for thousands of wealthy Chinese investors over the past two decades.

This was popular among high-net-worth individuals from Mainland China seeking to invest abroad, and when the IIP was repealed, there were fears that Chinese investment interest in Canadian property would wane. But early indications are that investment flows have not faltered and continue to rise, as foreign nationals are free to own property in the country, irrespective of their immigration status.

"Canada is one of the most popular property investment destinations, after the US and Australia. When the IIP programme was cancelled, many investors felt Canada was shutting the door and singling out China," commented David Platter, global director of PR & communications at Juwai.com, China's largest international property website for Chinese buyers.

"That did not last long however, and we have not seen any tangible change in the number of searches and inquiries into Canadian real estate. In fact, the numbers continue to rise. Canada was number three prior to June, and it remains number three."

Still, alarm bells are ringing. Border changes to immigration and tax policies in Ottawa risk scaring Chinese investors away, as the conservative government hunts down so called "ghost residents".

Of the foreign nationals who acquired residency or citizenship under the IIP, authorities are now chasing down individuals who failed to file Canadian tax returns or did not disclose their non-Canadian income, or made false claims on their citizenship applications.

David Lesperance, a barrister and

CHINATOWN IN VANCOUVER, BC

solicitor at Lesperance Associates, has been working with international investors from China for many years. He said that immigration authorities are reviewing applications retrospectively and have already cancelled approximately 2,000 citizenships. Lesperance also warns that the Canadian Revenue Agency (CRA) is aggressively reviewing the tax status of foreign nationals, and is looking to freeze and repossess locally held assets.

"I am already receiving calls from people who are not only having their citizenship challenged but are also getting audit notices from CRA. It is easy to see this trend accelerating as all the incentives are there for the government to ramp it up. Once news of this becomes more commonplace, you will see a mad rush to the exits to dump those easily collected Canadian assets," he said.

"Given the time it takes for the market to fully realise that this crackdown has already begun and is accelerating, I would anticipate the fire sale to take place within the next few years."

While Lesperance recognises that worldwide taxation of citizens and foreign nationals is commonplace in many Western countries, he bases his projections on the introduction of the Foreign Accounts Tax Compliance Act 2010 in the US, which caused many foreign investors to tuck tail and run.

> "Many investors felt Canada was shutting the door and singling out China"

The potential impact this could have for foreign investment into Canada and the local property market is anybody's guess, but the downside potentials cannot be ignored.

Asian investors have a strong foothold in the Canadian property market, lured in by the IPP which was launched in the 1980 and gathered momentum over the last decade, with application numbers peaking in 2010.

Many incoming Asian investors targeted Vancouver as the main city on Canada's Pacific coast. Between 2005 and 2013, a total of 37,000 investors class migrants settled in British Colombia (BC), of which 81 percent originated from Hong Kong, Mainland China, or Taiwan. Their wealth swamped the local property market and sent house prices rocketing. According to a study by Demographia International Housing Survey released in January 2014, Vancouver is now the second most expensive real estate market in the world, after Hong Kong.

BC's largest real estate company, MacDonald Realty, reports that one third of detached home sales in Vancouver went to buyers of Chinese lineage in 2013, and the company estimates that foreign demand has driven up average house prices to CAD1.2 million (USD1.09 million).

However, the upside impacts of foreign investment are often overlooked. Tony Letvinchuk, managing director of MacDonald Realty, cites foreign demand as a key driver in new condominium development, which generates fresh housing stock to feed the rental market. Creating residential supply will be important going forward, as rising demand has the potential to push prices up even further.

This illustrates the influence and contribution Asian investors have on the Canadian economy, and ghostbusting immigration tactics and heavy handed tax audits, could see Canada shoot itself in the foot.

Current trends indicate that capital outflow from china into high-end foreign real estate is poised to soar over the coming decade, as the Chinese economy and income per capita double in value.

According to Platter, land and property remain top investment options for China's nouveau riche, and destinations such as USA, Australia, Canada, UK, and European countries top the bucket list.

Yet, pursuit of international investors and asset seizures could see Canada fall out of favour with Chinese property buyers, who may instead opt for Australia, which has been luring Chinese investors with its own investor migrant scheme.

"Canada is easier to invest in than Australia, and Canberra had been trying to simplify the investment process for Chinese citizens in hope of stealing market share away from Canada following the IIP repeal. However we have not yet seen any evidence of this," commented Platter. ■