

Separating Homes from Speculation: A Market-Design Approach to Canada's Housing Crisis

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1 Introduction

Canada’s housing affordability challenge affects economic security, labour mobility, and intergenerational equity. Public discussion frequently emphasizes insufficient housing supply. While supply constraints are important, this framing ignores a structural feature of the market: owner-occupiable housing serves simultaneously as shelter and as a leveraged investment vehicle.

When these functions compete, prices are influenced not only by housing need, but also by differential access to capital. Investors with existing equity, portfolio lending relationships, or rental income streams may face weaker effective borrowing limits than households attempting to purchase a principal residence. In supply-constrained markets, this asymmetry can push prices higher as investors can make higher offers, reducing access to ownership for credit-constrained households.

Recent Canadian evidence suggests that investor-targeted policy can materially affect housing markets. Using administrative data, Andolfatto and Rekkas (2024) estimate that Metro Vancouver’s 2016 Foreign Buyers Tax reduced residential prices by approximately 20–23%, with effects concentrated in single-family homes in higher-priced areas. Their findings demonstrate two important points: first, that investor demand can influence equilibrium prices in supply-constrained markets; and second, that targeted transfer taxes can shift price formation without collapsing the broader housing market.

While that policy focused on foreign buyers, the underlying mechanism of investors’ greater access to credit and capital is not limited to foreigners. This paper extends this logic to all investors, examines recent Canadian evidence consistent with such asymmetries, and proposes a policy response grounded in market design rather than across-the-board restriction.

2 Empirical Evidence from a Tightening Cycle

The key empirical question is whether investor participation is large enough to plausibly affect marginal price formation.

Table 1 reports annual changes to the Net Number of Property Owners (NNPO) and the investor composition in Ontario and British Columbia from 2020-2023. Over this period, borrowing costs rose sharply: the conventional five-year mortgage rate increased from an average of 3.28% in 2020 to 4.91% in 2023. At the same time, new housing price growth decelerated and turned slightly negative in 2022–23 in both provinces.

Two patterns stand out. First, net ownership growth fell substantially in both provinces during tightening cycle from 2021-2023. Second, investor share of net ownership growth increased, particularly in Ontario, where investor share of ownership growth rose from 24.95% to 82.73% between 2020–21 and 2022–23. British Columbia saw almost all growth in 2021-22 go to non-investors and investor-occupants, but 2020-21 and 2022-23 saw investors take 36.47% and 45.7% of net ownership growth respectively.

These numbers are consequential on their own, but it is important to note that ownership is recorded at the individual level rather than the property level in these data. Because principal resi-

Table 1: Ownership Composition, Mortgage Rates, and Price Growth

	Ontario			British Columbia		
	2020–21	2021–22	2022–23	2020–21	2021–22	2022–23
<i>Net Ownership Growth</i>						
Net Number of Property Owners (NNPO)	81,920	64,590	44,620	39,110	43,925	17,340
Total Percentage Change NNPO (%)	1.33	1.04	0.71	1.78	1.96	0.76
<i>Investor Composition of NNPO (%)</i>						
Investor Share of NNPO	24.95	39.64	82.73	36.47	1.34	45.70
Owning One Property	-15.00	5.43	6.26	35.94	-12.19	4.24
Owning Two Properties	27.52	22.64	46.84	4.69	10.92	29.15
Owning Three or More	12.43	11.58	29.63	-4.15	2.62	12.31
Investor-Occupants Share	-0.05	0.68	1.70	10.07	17.99	17.94
Non-Investor Share	75.10	59.68	15.56	53.45	80.67	36.36
<i>Credit Conditions</i>						
Average 5-Year Mortgage Rate (%)	3.71	3.28	4.91	3.71	3.28	4.91
Change in 5-Year Mortgage Rate (pp)	0.44	1.63	1.14	0.44	1.63	1.14
<i>Housing Prices</i>						
New Housing Price Growth (%)	10.73	6.50	-0.63	10.90	6.62	-0.49

Sources: Statistics Canada : Table 46-10-0069-01; Table 34-10-0145-01; Table 18-10-0205-01.

dences are often co-owned, changes in non-investor owner counts may *overstate* principal residence purchases. Conversely, growth in multi-property investors *understates* the number of properties acquired, since one investor can purchase multiple units without proportionate growth in owner counts.

While NNPO does not measure gross transactions, it captures shifts in ownership positions. During a period of rising interest rates and slowing price growth, investors accounted for a growing share of marginal ownership change. This pattern is consistent with systemically different access to credit and capital: principal-residence demand appears more responsive to higher borrowing costs than investor demand.

3 A Short-Run Market Mechanism

In the short run, the number of properties brought to market responds only weakly to price. Most households do not sell frequently; relocation is costly; and many owners face mortgage lock-in. New construction also adjusts slowly. As a result, listings supply is relatively inelastic.

In such a setting, changes in demand have a large effect on price. If investors borrow against existing equity or use rental income to qualify for loans, their effective demand may be less sensitive to rising interest rates than that of first-time buyers. Even if investors represent a minority of total buyers, they can offer the highest price.

The empirical patterns in Table 1 are consistent with this mechanism: as borrowing costs rose and overall ownership growth slowed, investor share of marginal ownership increased.

Higher prices reduce access to home ownership for households that rely primarily on labour

income and are more tightly constrained by lending rules. Leveraged investment demand imposes costs on households seeking housing for their own residence in the form of higher purchase prices and potentially higher rents due to pass-through costs, while the gains accrue to incumbent property holders. Corrective policy does not need to eliminate investment activity, but it may justify separating asset markets where objectives differ.

4 Policy Proposal: Segmenting Principal and Rental Markets

The objective is not to eliminate investors from housing markets. A functioning rental sector is essential. The objective is to reduce direct competition between leveraged investors and households seeking a principal residence.

I propose an administrative designation system:

- **P (Principal Residence)**: housing intended for primary residence.
- **R (Rental)**: purpose-built or pre-existing rental properties.

Administrative feasibility is a central consideration. The Canada Revenue Agency already receives rental income declarations and principal residence information, so designation could be implemented using existing tax infrastructure. Clear transitional rules would be required to minimize anticipatory manipulations. For example, eligibility for R designation could be based on rental status at the time of legislative announcement.

Segmentation enables targeted instruments:

1. A progressive transfer tax on purchases of P properties by non-occupant buyers.
2. A scaled non-occupancy tax on P properties not used as principal residences.
3. Restrictions on resale of P properties to investors.
4. Automatic R designation for apartment-style condominiums to encourage high-density rental supply and stabilize that market.

The designation itself alters expectations and separates the rental and owner markets at the current equilibrium. By clearly distinguishing P and R properties, government signals that investor-targeted instruments may apply to P assets. Anticipation of such measures can reduce speculative demand even prior to implementation.

Importantly, R-designated properties remain tradable among investors, preserving asset value. Rental supply can be further supported through policy encouraging rental construction, redirecting capital toward high-density development rather than bidding over existing principal residence stock. The policy can also encourage owners of P-designated properties to construct rental suites to increase their property value, encouraging increased supply of rental units.

5 Transitional Considerations

If segmentation reduces speculative demand, prices for P-designated properties may adjust downward. Improved affordability is the objective, but abrupt balance-sheet losses could create financial stress.

Targeted transitional measures could include temporary refundable tax credits for realized principal-residence losses and interest-free recovery loans to prevent negative-equity cascades. Such measures should be means-tested and time-limited to preserve fiscal discipline.

6 Conclusion

Canada's housing challenge is not solely about the number of units built. It is also about how the market allocates those units between consumption and leveraged investment. Recent evidence shows that investor participation increased as a share of marginal ownership even as borrowing costs rose, potentially crowding out principal residence buyers with insufficient access to credit.

Segmenting principal-residence and rental property markets offers a practical, administratively feasible response. It preserves rental supply, reduces direct competition in owner-occupiable markets, and enables targeted instruments to address speculative pressure while managing adjustment risk.

References

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A Formal Short-Run Market Framework

Consider a local housing market in the short run, where supply reflects property listings:

$$Q_S(p) = \bar{Q} + \eta(p),$$

where $Q_S(p)$ denotes listings at price p , \bar{Q} captures baseline listings driven by mobility and life-cycle events, and $\eta(p)$ captures the price responsiveness of additional sellers. In the short run, relocation frictions and mortgage lock-in imply weak responsiveness; supply is relatively inelastic.

Total demand is:

$$Q_D(p) = Q_O(p) + Q_I(p),$$

where

$$Q_O(p) = a_O - b_O p, \quad Q_I(p) = a_I - b_I p.$$

Here a_O and a_I represent baseline principal-residence and investor demand, while b_O and b_I capture price sensitivity. If investors face weaker borrowing constraints, then $b_I < b_O$.

Equilibrium satisfies:

$$\bar{Q} + \eta(p^*) = a_O + a_I - (b_O + b_I)p^*.$$

Totally differentiating with respect to a_I yields:

$$\frac{\partial p^*}{\partial a_I} = \frac{1}{\eta'(p^*) + b_O + b_I}.$$

When listings are weakly responsive and investor demand is relatively insensitive to price, increases in investor demand raise equilibrium prices substantially. Even if investors are not the majority of buyers, marginal participation can shift price formation. Higher prices reduce principal-residence surplus.

Statistics Canada (2023) Statistics Canada (2024b) Statistics Canada (2024a)