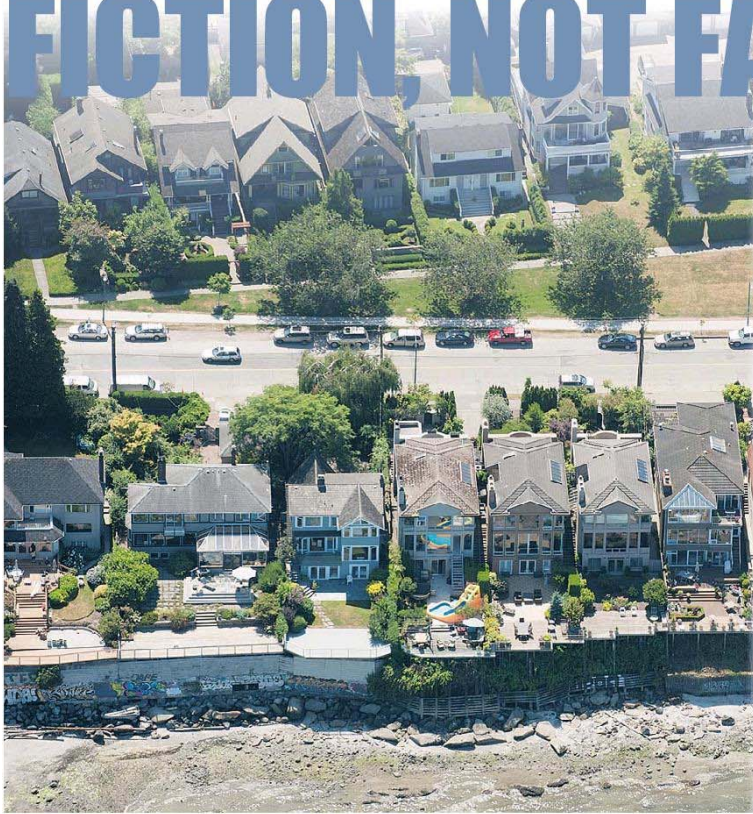


# BAGS OF CASH: FICTION, NOT FACT



ARLEN REDEKOP/PNG

A new case study shines a light on luxury real estate in Vancouver and how buyers are paying for the properties.

## Bank mortgages, not rumoured cash, behind Chinese home buys: Study

JOANNE LEE-YOUNG

VANCOUVER SUN

A new case study reinforces the significant role of mainland Chinese money in the city's hottest west side residential real estate markets.

It also finds that almost 70 per cent of all sales on the Multiple Listing Service in a recent six-month period, worth more than half a billion dollars, were bought with mortgages extended by just three Canadian banks: CIBC, BMO and HSBC Canada.

David Eby, the NDP MLA for Vancouver-Point Grey, pulled the land titles for 172 single-family home purchases in the West Point Grey, Dunbar and University Endowment Lands neighbourhoods between August 2014 and February 2015.

Pushed in part by residents and business owners in his riding to better understand the rapid change in these neighbourhoods, Eby gave the land titles to Andy Yan of BTAworks, the research and development

division for Vancouver-based Bing Thom Architects.

Yan, who is also adjunct professor at the University of B.C.'s School of Community and Regional Planning, pored over the land titles and found 66 per cent of the buyers have a "non-Anglicized Chinese name" such as, "Wong San Fung or Li Xian," which implies they are newer arrivals to Canada and are more likely to be buying homes with money earned overseas. He didn't count "ethnic Chinese names like (his own), Andrew Shui-Him Yan.

Such name analysis is common in public health, political science and Asian-American studies in the U.S. Although names do not reveal if a buyer is a Canadian citizen, permanent or temporary resident or an overseas investor, there is an academically accepted correlation between "non-Anglicized names" and a shorter length of time spent in Canada as an immigrant or resident, Yan says.

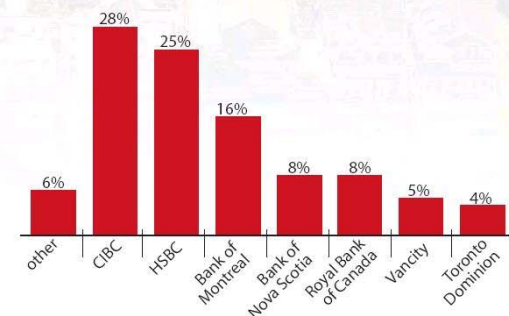
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### Shining a light on west-side property buyers

Andy Yan of BTAworks looked at information on land titles for 172 single-family home purchases in the West Point Grey, Dunbar and University Endowment Land neighbourhoods between August 2014 and February 2015. Over 65 per cent of buyers had a "non-Anglicized Chinese name."

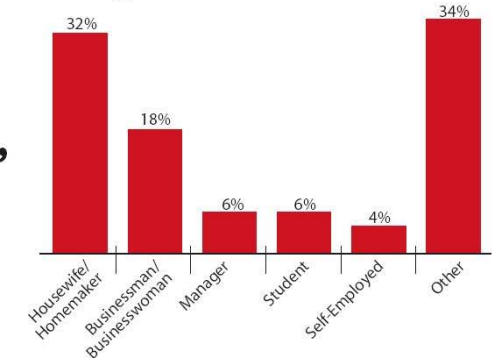
#### Lenders

It found more than 80 per cent of these properties held a mortgage through the following banks.



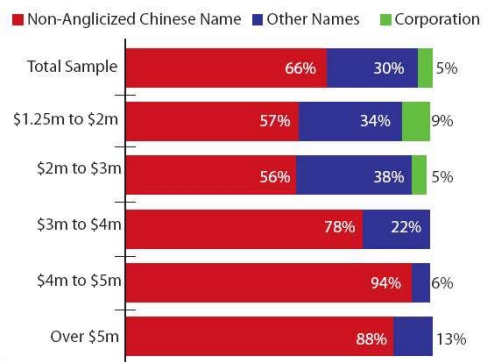
#### Buyers' occupations

It found 63 per cent of these properties listed a single owner (as opposed to two names) on the land title.



#### Mainland Chinese buyers

It found few corporations were listed as owners, but buyers with "non-Anglicized Chinese names" dominated sales of higher-value properties.



Source: BTAworks, BC Land Titles



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# Bags of cash: Fiction not fact

The 66 per cent is in line with recent reports such as one in August by Macdonald Realty, which found buyers with "mainland Chinese sounding names" accounted for 70 per cent of the firm's 2014 sales of single-family homes, condos and townhouses over \$3 million in Vancouver.

Yan describes the neighbourhoods he looked at for this case study as the centre of mainland Chinese buying. But he said he was surprised to find 82 per cent of the homes sales he looked at held a mortgage and that three Canadian banks account for almost 70 per cent of the financing was surprising.

"I would love to dig (into a wider sample) and find out, 'Is this normal? Or is this different?'"

Yan questions the role of Canadian banks with international networks in residential real estate.

So what if, he asks, instead of the prevailing stereotype that these properties are being paid for outright in cash, "there is a whole overall system in place that enables this that is as Canadian as maple syrup?"

"It was pretty startling. This notion of people showing up with a big bag of cash isn't really so much the case," says Eby. "We have homemakers and students listed as buying \$2-million to \$3-million homes and qualifying for the mortgages."

CIBC did not respond to general queries from The Vancouver Sun for this story, while senior level executives at HSBC Canada and BMO were not available to comment.

Recently, Sandra Stuart, chief executive officer of HSBC Bank Canada, told Bloomberg news: "It's really important that we do get the data, we do understand who's buying the homes. We need to let the political, the regulatory side play out."

At one level, it's as simple as these banks offering credit cards so a customer, starting a life in Canada, can make some basic purchases.

At the other end, the banks are involved with the sophisticated managing of money for wealthy individuals with global portfolios.

"There is natural immigration where people move to start a life, and there are many unquestionable benefits (to a community)," says Peter Routledge, managing director of financial services research at National Bank Financial.

But there is also a small but fast-growing and very profitable business for Canadian banks based on so-called high-net-worth clients.

"It's easier to make money from the fees from someone who has a \$5-million estate," says Routledge.

"And guess what? If you are in New York, London, San



JENELLE SCHNEIDER/PNG FILES

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## Good data is hard to find

Yan's case study looked at 171 properties, representing total sales as listed on the Multiple Listing Service between August 2014 and February 2015. It's a reasonable assumption this would be the full picture of a moment in time in this specific area.

But one of the biggest home sales in B.C. that occurred in this snapshot didn't show up in his study because it was never listed on the MLS.

The sale of a \$51.8-million mansion at 4787 Drummond Drive in West Point Grey was finalized on December 12, 2014, so it fits into the time and geographical frame of Yan's study.

It's not clear how many other transactions took place during this time in this area, but in this private, off-the-MLS way that makes them harder to track.

Yan found that for properties

between \$4 million and \$5 million, 94 per cent of buyers had non-Anglicized Chinese names. And for properties over \$5 million, the number was 88 per cent.

But it's hard to identify properties that weren't recorded as sold on the MLS and perhaps were sold for more, making information about how they were paid for and which banks might be extending financing more deeply buried.

Land title documents show that mainland Chinese businessman Chen Maillin, the buyer of the \$51.8-million house, was extended a mortgage by the Bank of China (Canada).

The land title office does not make available a total number of transactions figure that could be compared to the MLS one. Yan says it shows how much more access to data is needed for a fuller picture.

Joanne Lee-Young, Vancouver Sun

Francisco and Hong Kong, you see this (too). These are (also) global destinations where high-net-worth people store their wealth because the safety is matched in few other places."

Routledge researches the major Canadian banks and life insurers and recommends whether institutional investors should buy or sell their stocks. He is Toronto-based, but grew up in North Vancouver and knows the local real estate story as well as anyone.

"I've done a lot of work looking at the Big Six banks. Their most valuable customers are Canadian households," says Routledge, explaining that 30 years ago, these banks split their business with half commercial customers and half household customers.

Now, they're 83-per-cent devoted to household customers and just 17 per cent to commercial.

With home mortgages being so important to these big Canadian banks and new evidence showing how they collectively are lending to almost 70 per cent of borrowers in Yan's case study about mainland Chinese buyers on the west side, the question, Routledge poses is: "Are they making reckless mortgages?"

Yan's study showed that for 108 out of 172 properties, there was only one owner on the land title, with 32 per cent of these named as housewife/homemaker. Six per cent were students. This raises questions about what's being considered before banks issue these mortgages.

Routledge said he is "almost certain (the banks) are not (reckless). They are being 'safer' by requiring higher down payments. Someone from mainland China with no documented income, but who has a high asset base, will be subjected to more stringent requirements and a higher down payment. This is automated."

In banking, he says, it's called "KYC: knowing your customer. Instead of asking for a 20 per cent down payment, they would likely be asking (such buyers) for between 40 to 50 per cent."

"If I were a senior bank manager in Vancouver growing my investor immigrant share," says Routledge. "And I had someone buying a \$3-million home, I would put \$1.5 million down on the home and put the other \$1.5 million in an investment account, collect the fees, and use it as backup collateral on the (mortgage). It's prudent banking."

There is actually some evidence, says Routledge, that banks are being more careful when they lend to buyers of homes in B.C. He points out that BMO's "average loan-to-value figure (meaning how much they lend compared to what a property is worth) on new mortgages between May to July 2015 was 63 per cent, compared to a national number of 67 per cent and 70 per cent in Alberta.

You could say, according to Routledge, they are requiring higher down payments on higher priced homes.

David Ley, the University of B.C. geography professor who is researching housing bubbles in cities that have seen an influx of mainland Chinese cash, says "in other gateway cities with significant offshore buying — I'm thinking of London and Hong Kong,

**“In other gateway cities with significant offshore buying — I'm thinking of London and Hong Kong, in particular — there is more awareness of the existence of money laundering, for example. I'm surprised by the lack of discussion and action on this issue in Vancouver.”**

DAVID LEY  
GEOGRAPHER

in particular — there is more awareness of the existence of money laundering, for example. I'm surprised by the lack of discussion and action on this issue in Vancouver."

"The part that worries me is that since 2013, there has been an intensifying of capital flow leaving China," says Routledge. "Folks call this 'hot money outflows.' The problem is if it turns cold and you don't see it coming."

He emphasizes there is no way to say or predict when this will happen. Expert opinions differ, but if anything, "it's a very stable market and no evidence capital flow is going to stop."

And if home values do drop, he thinks Canadian banks lending to buyers of homes in the three west-side neighbourhoods would be reasonably well covered. Based on his rough sketch of the high-net-worth client putting down \$1.5 million for a house and another \$1.5 million in an investment account with the bank, it would take a 50-per-cent fall in the value of a house for the bank to lose.

The greater danger for the banks, says Routledge, could come "from the thousands of other mortgages made by the banks to people with local salaries."

As prices rise, rippling out from the epicentre of higher-end buying, and local buyers stretch to secure homes with down payments of 20 per cent or less, the banks could be left on the hook for much more.

Routledge compares the landscape to a crystal vase on a bookshelf. It's very stable and there's nothing to suggest otherwise. It's just that if it were to get bumped, it might be more fragile than it appears.

jlee-young@vancouvernews.com