6 May 2016 The Vancouver Sun GARRY MARR gmarr@nationalpost.com Twitter.com/dustywallet

METRO MARKETS RISK MELTDOWN

Vancouver, Toronto housing ‘in danger of entering speculative-land’: economist

I think it’s now safe to say that the measures Ottawa introduced late last year did nothing to cool Vancouver or Toronto.

The acceleration of price increases in Canada’s two most expensive cities is showing no signs of stopping, something sure to add fuel to arguments that housing markets in Toronto and Vancouver are overheated and need some type of intervention.

PETER J. THOMPSON The average price for a detached home in the city of Toronto has reached $1,257,958, up from about $1 million a year ago, says the Toronto Real Estate Board.

Vancouver, long a hotbed of frothing anger over prices many blame on offshore buyers, just keeps shattering records.

The Real Estate Board of Greater Vancouver said this week the overall index for prices in the city rose 25.3 per cent in April from a year ago, eclipsing the 23.2 per cent year-over-year increase the market saw in March.

An average detached home in the Metro Vancouver area sold for $1,817,027 in April.

In Toronto, the evidence is that home price increases in Canada’s largest city are now spilling into the suburbs and even distance municipalities like Guelph and Waterloo. The Toronto Real Estate Board said Wednesday that the average price in the metro area rose 16.2 per cent in April from a year ago as the average detached home in the city of Toronto reached $1,257,958. Just over a year ago, the average existing detached home topped $1 million.

“I don’t think governments should be doing anything to try and curtail demand right now,” said Peter Norman, chief economist and vice-president of Altus Group. “If anything, government should be trying to reduce the barriers to building, whether it’s land development to encourage more supply to come forward.”

Norman, who believes foreign investment is not the reason behind price increases, but is actually stimulating supply of highrise construction, says Toronto is poised to add new low-rise supply because of a number of developments that have finally made it through the planning process.

“Where we do have foreign investment in the GTA and Vancouver, it is driving supply. Most of the discussion is foreigners are buying product and not using it. That’s a small part of the question. Most of the foreign money is financing new construction,” said Norman, adding that the falling Canadian dollar has been the real driver of foreign demand. “People are just telling the wrong narrative.”

The government has introduced multiple measures to try to cool the housing market, the latest being a Liberal initiative in February that increased the minimum down payment from five per cent to 10 per cent for any amount of a purchase over $500,000. The measure applies only to insured governmentbacked mortgages, which are now limited to homes valued at $1 million or less.

Homes sold for more than $1 million require a down payment of at least 20 per cent.

“I think it’s now safe to say that the measures Ottawa introduced late last year did nothing to cool Vancouver or Toronto, or indeed any of the regions surrounding those cities,” said Douglas Porter, chief economist with the Bank of Montreal.

“There has been relatively strong job growth in both Vancouver and Toronto over the past year, and interest rates are lower than a year ago — but enough to explain this strength? No,” he said. “The risk here is what had been a previously robust market is clearly now in danger of entering speculative-land, which ultimately is good for no one.”

The Liberals have indicated they have no immediate plans for further tightening of regulation and just last month the Bank of Canada said it would not shape its monetary policy based on housing. It said the “cost” of curtailing the market — something that might be done by raising interest rates — “outweighed” the benefits to the overall economy.

Porter thinks it’s time the provincial governments step in to contribute more to housing policy, something that can be done through land use policy. Foreign investment is within the powers of provinces to regulate and Prince Edward Island has long restricted out-of-province purchases.

“Since the red-hot market conditions are so focused on two particular regions (as opposed to the whole country), it seems that the provincial governments in B.C. and Ontario have a role to play in avoiding a speculative boom — without hampering legitimate homegrown demand for housing,” Porter said.

Bryan Tuckey, of the Building Industry and Land Association, which said in April that the average new detached home in the Greater Toronto Area passed $1 million, said restrictive land use policy in his region has been driving prices in both old and new low-rise homes.

“New homes are the feeder for existing homes. If you don’t build new homes, the industry doesn’t have the supply of homes to sell,” said Tuckey, adding that the planning process means land can take up to a decade to develop. With the focus on highrise intensification, the gap between new low-rise and highrise homes is at an all-time high.

For those still dreaming of lowrise homes, the news could get worse as the baby boomers continue to live longer and show less and less interest in moving out of their longtime single-family homes to increase supply, said Doug Norris, chief demographer for Environics Analytics. “Four or five years ago, I thought we’d see (boomers moving out of their homes), but it hasn’t happened,” Norris said. “We were looking too early. It might not happen until they hit 75, we could be five or 10 years away.”