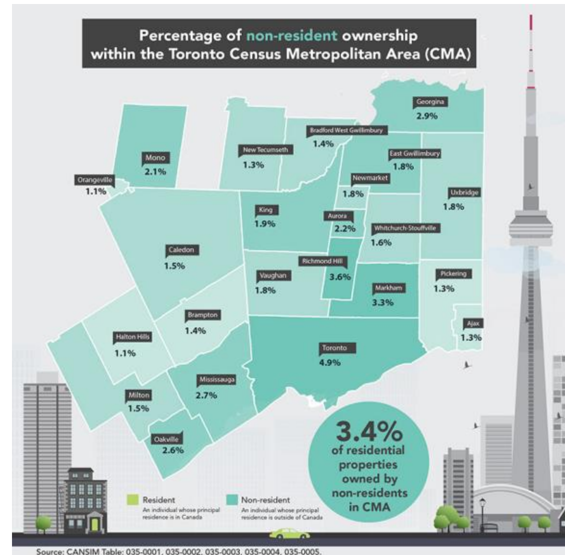
National Scene
CANADIAN HOME BUILDERS' ASSOCIATION

December 2017

New StatsCan Data Proves CHBA Correct About 'Foreign Buyers'

It's been an all-to-common common refrain over the last few years: Vancouver and Toronto politicians blaming soaring home prices on mysterious 'foreign buyers.'

Just as consistently, CHBA has expressed the view that while foreign buyers may be a minor factor in price run-ups, politicians should look closer to home if they want to understand what's really going on, and focus on housing supply if they want to truly address the issue.



A new Statistics Canada report supports CHBA's view.

As a part the Canadian Housing Statistics Program (something CHBA has long called for), StatCan and CMHC are improving and increasing data on housing markets. The first results — on non-resident ownership in the GTA and Vancouver — was released on December 19th.

The data is clear: non-resident homeowners represent a very small fraction of the market. They own just 4.8 percent of homes in Vancouver, and an even smaller 3.4 percent in the GTA.

It's no wonder that foreign buyer taxes introduced in both cities have had such limited impact. It's hard to solve a problem that doesn't really exist.

A deeper dive into the data shows that in both cities, foreign ownership is largely concentrated in condominiums, and higher-end homes.

Condos accounted for about 44 percent of foreign property ownership in Toronto, and 53 percent in Vancouver. This amounts to some 7.9 percent of the condominiums in Vancouver and 7.2 percent in Toronto.

In relation to single family homes, there are some sharp contrasts between Canadian and non-resident owners.

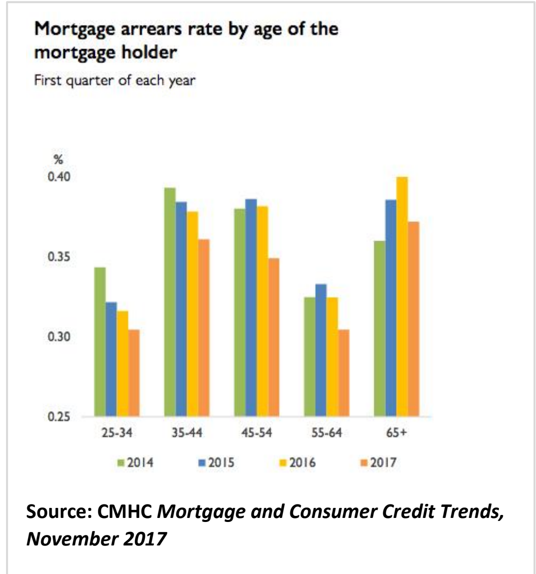
In the GTA, just 2.1 percent of single homes are owned by non-residents, and, on average these homes had an assessed value that was 12 percent higher than those owned by residents.

In Vancouver, where 3.2 percent of single detached homes are owned by non-residents, average assessed value was a whooping 45 percent higher than resident-owned single detached homes.

Hopefully, with this more definitive data available, government decision-makers will begin to focus on the real housing issues in these major markets, including the severe shortage of affordable family-friendly homes in downtown areas, or in outlying communities served by efficient transit. CHBA, and our provincial and local Associations, are in the best position to tell them how to address this critical problem.

CMHC Report Shows Younger Buyers Have the Lowest Mortgage Default Rate

The November 2017 release of CMHC's *Mortgage and Consumer Credit Trends* report provides some revealing insights into how Canadians manage their finances. It also raises questions about federal mortgage policies that have an oversized impact on younger Canadian families trying to become homeowners.



Source: CMHC ***Mortgage and Consumer Credit Trends, November 2017***

Delving into the CMHC data, one thing becomes strikingly clear: the notion that younger, first-time homebuyers represent a higher risk to lenders is simply false. The data show that mortgage holders between 25 and 34 years of age have amongst the lowest rate of mortgage arrears, just 0.30 percent (tied with the 55 to 64 year old cohort). The 'riskiest' mortgages are held by those over the age of 65, where the arrears rate sits at 0.36 percent – considerably higher.

In contrast, the U.S. Federal Reserve reports that current mortgage default rate south of the border sits at 3.62 percent, more than ten times the Canadian rate.

Given that younger Canadian homeowners are clearly among the most reliable in terms of servicing their mortgage, the increasingly stringent mortgage rules that make home ownership particularly difficult for young families seem perverse. As the data show, there is no indication that younger homebuyers present a heightened risk to lenders – quite the reverse.

In terms of positive news, the report states that the "increase in the share of mortgage holders with a very good or excellent credit score indicates that mortgage holders are generally able to manage their overall debt."

Reflecting the impact of past mortgage regulation changes, CMHC reported that in the same period some "83% of outstanding mortgage loans were held by consumers with very good or excellent credit scores. This share is part of an upward trend since 2013, indicating a larger share of the mortgage market is supported by consumers with low probabilities of defaulting."

As of Q1 2017, CMHC found that the average outstanding mortgage balance stood at $196,000 with monthly payments of $1,200.

2018 CHBA National Conference in Victoria – now open for registration

Mark your calendar for the 75th anniversary CHBA National Conference at the Fairmont Empress in Victoria, B.C.

Pre-conference committee and council meetings will take place March 19-21, with the full Conference following on March 21-23.

Join this special celebration of Canada's homebuilding history, and meet with members from across the country to shape our industry's future. For details and registration, visit www.chba.ca/conference. The Early Bird deadline is January 19.

After a fairly robust 2017, forecasters are expecting Canada to return to ~2% growth in 2018. RBC estimates that the economy saw an expansion of 3% overall in 2017 — powered by first-half growth of more than 4% — that will likely be followed by a gain of 2.1% next year. TD, more optimistically, is calling for 2.4% GDP growth in 2018.

But the long-term trend is calling for tepid growth. Boston Consulting Group expects Canada's GDP growth rate to fall from a historical average of 2.4% between 1995 and 2016 – a level of growth that outpaced all other G7 countries – to an average of just 1.2% between now and 2030.

The OECD says that the world economy is growing faster than it has in seven years and more people are working, but it doesn't expect this level of growth to be sustained, noting that wages remain stubbornly stagnant. The OECD is calling for the Canadian economy to grow 2.1% in 2018 and 1.9% in 2019.

This slowdown was already evident in 2017's Third Quarter numbers. According to Statistics Canada, real GDP growth slowed to 0.4% in Q3 2017, following a 1.0% increase in Q2.

The decline in economic growth was closely tied to housing activity. Investment in residential structures (i.e. spending on existing homes) fell 0.4% in Q3 2017, following a 0.9% decline in Q2. This was the first time since Q1 2013 that investment in resales fell for two consecutive quarters.

Decline in Housing Activity Expected for 2018, but . . .

Many forecasters have cited stricter mortgage rules, rising interest rates and declining affordability as significant factors in the expected housing slowdown.

While resale numbers reflect this decline, investment for new residential construction tells a different story. The value of new residential construction totalled $35.8 billion in Q3 2017, up 9.1% compared with 2016 and the largest increase since the Q4 2012. For the first time in five years, investment in new construction rose on a year-over-year basis in every province.

While new housing activity tends to lag behind trends in resale, sales and permit data for October (as well as pull forward activity ahead of the B-20 implementation) mean that new housing is likely to have a strong first quarter in 2018. This could translate into continued consumer confidence in new housing moving into the middle of 2018.

It's not too much of a stretch to imagine actual housing starts bucking current predictions, at least in the near-term - the persistent strength of housing has baffled most observers since the recovery from the 2008 recession, driven more by household formation than economic indicators.