



Donald Trump and the Canadian Housing Bubble

Description

According to the *Globe & Mail*, Trump Tower is “quietly being shopped around by his former partner on the project.” The property, located in Toronto, has been riddled with debt and mismanagement.

With a forced sale coming soon, what does Trump Tower have to do with the Canadian housing bubble?

Toronto is on fire

Donald Trump’s former partner, Alex Shnaider, is likely looking to take advantage of Toronto’s red hot real estate market. While you may have heard analysts discussing the possibility of a Canadian housing bubble, it really only exists in two metropolitan areas: Toronto and Vancouver. Home sales have jumped an astounding 50% over the past year in Vancouver and roughly 12% in Toronto (Canada’s biggest market).

According to real estate company Royal LePage, “Demand for expensive luxury homes in the two cities is at the highest on record so far this year.” While average housing prices are up 60% since 2008, the Toronto and Vancouver markets skew any statistics you may read. Outside those markets, home prices are growing by less than 5%.

Will things end badly?

According to a **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) economist, the Toronto and Vancouver markets will end poorly for consumers, lenders, and the economy as a whole. “Odds are that if this kind of price growth continues, it will end badly,” Robert Kavcic said in a research note. “But that still looks to be sometime down the road,” he added.

One reason a pop to the bubble has been delayed is due to new federal regulations designed to slow down price gains. These rules, coming into effect back in February, require higher minimum down payments on certain properties. The minimum down payment for new mortgages above \$500,000 doubled to 10%. The minimum down payment for homes over \$1 million remains unchanged at 20%.

This Trump executive says some markets are undervalued

While many have been warning about a bubble in Canada's real estate market, one of Donald Trump's most trusted executives says Canada's real estate market is actually undervalued with plenty of investment opportunities.

George H. Ross is the executive vice president for the entire Trump organization. He has over 50 years of experience in real estate investments, even helping Donald Trump close his first deal decades ago. "I don't agree it's overvalued. I think it's undervalued ... and there is plenty of room for improvement," Ross told *BNN*. "Is the leader of Trump's organization outsmarting all of the investors who are calling for a real estate market crash?"

Spillover effects

Even if only Toronto and Vancouver are facing real estate bubbles, contagion is a legitimate concern. Provinces like Alberta and Saskatchewan haven't seen real estate bubbles because their economies are already in decline due to collapsing oil prices.

The major regions that aren't reliant on commodities, namely B.C. and Ontario, could be pushed into recession if the real estate market collapsed. If this occurred, nearly every major metropolitan area in Canada would experience declines in wealth. This could have a severe impact on consumer spending and confidence, which would be more than enough to create a systemic crisis.

As an investor, take a look at where your real estate exposure is. Many banks such as Bank of Montreal and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) are overexposed to specific regions. Understanding where your risks are will be important no matter what the real estate market does.

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