



## The Housing Bubble Is Over: Trouble Is Brewing

### Description

A rising tide lifts all boats. In Canada's case, rising home prices have lifted the entire economy, even in the face of lower energy and metal prices.

While oil-rich havens such as Alberta and Saskatchewan have struggled mightily, other regions such as Ontario and British Columbia have picked up the slack—almost completely due to their rapidly rising real estate markets.

Compared to 2015 levels, the Vancouver area has seen average home prices increase by 25% with the median selling price topping \$1 million. This year, Royal LePage expects Vancouver prices to rise a total 27% along with a 15% rise in the Toronto market.

"I believe it is the highest value put forward by a serious forecasting agency since the turn of the century," said Royal LePage's CEO.

Soon, however, the governments of both Toronto and Vancouver will have foreign buyer taxes aimed at cooling a red-hot housing market. The party may be over, and that could have major consequences on the rest of the Canadian economy.

### New taxes are achieving their desired effect

According to the Canadian Real Estate Association, sales of existing Canadian homes fell in August, the fourth straight month of volume declines. The drop—the largest monthly decline in two years—was preceded by a tax on foreign buyers in Vancouver.

"Single family homes sales were already cooling before the new land-transfer tax on foreign home buyers in Metro Vancouver came into effect," said the chief economist of the Canadian Real Estate Association. "The surprise announcement of the new tax caused sales to brake hard."

House purchases in Vancouver declined by 26% in August compared with the same month a year earlier.

Toronto is likely to follow suit with its own buyer tax.

Benjamin Tal, an economist at CIBC, says that Ontario will have little choice but to enact a tax on foreign house buyers, similar to the 15% surcharge recently implemented on home purchases in Vancouver. Vancouver's tax has shifted demand to other cities such as Toronto, further inflating the problem.

Tal believes that Toronto will inevitably have to enact a tax, likely putting an end to a multi-year housing market rise. "Policymakers have to use demand tools to deal with what is essentially a supply problem," he said. "Ontario will have little choice but to do the same."

### **No relief in 2017**

Canadian Real Estate Association recently trimmed its forecast for 2017, projecting a 0.6% decline in national home sales and a 0.2% drop in prices. In June, it had forecast sales to *rise* 0.2% and for prices to *rise* 0.1%.

This reversal could be catastrophic.

According to **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), the rapidly rising real estate market 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," a bank analyst said in a research note.

It seems that the period of perpetual price growth is over.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

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