Even the Federal Government Thinks Canadian Homes Are Overvalued

Description

This week the Canada Mortgage and Housing Corporation (CMHC) showed strong evidence that multiple Canadian real estate markets are overvalued–some dangerously so.

“Canada now shows strong evidence of problematic conditions overall due to overvaluation and price acceleration,” it said, raising its overall risk rating for the national housing market to “strong” for the first time.

Even more concerning, it appears as if the bubble is ready to pop.

The CMHC is now calling for a slow to housing starts, sales, and prices in 2017 and 2018. “The combination of overvaluation and overbuilding should help slow the growth in resales and house prices and lead to a moderation in the pace of housing starts,” it said.

The CMHC isn’t the first federal agency to show signs of worry.

The Bank of Canada has decided to hold rates steady at 0.5%, while cutting its GDP forecast to 1.1% in 2016 and 2% in 2017. One of the chief concerns: slowing housing markets.

Due to a new tax, home purchases in Vancouver have declined by over 20% compared with a year earlier. Toronto is likely to follow suit with its own buyer tax. Ottawa has also instituted new rules on mortgages that will likely bring the gangbusters’ market to a screeching halt.

The 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%.

Statistics Canada believes this could be catastrophic for the economy and consumers. This year, it reported that the debt-to-disposable income ratio for the average Canadian is 165%–near record highs. For every $1 of disposable income, the average person now has $1.65 in debt.

Worryingly, the parliamentary budget office also recently released a report predicting that debt levels will continue to rise over the next five years as interest rates normalize.

“Household debt-servicing capacity will become stretched further as interest rates rise to ‘normal’ levels over the next five years,” the report said. “Based on PBO’s projection, the financial vulnerability of the average household would rise to levels beyond historical experience.”

Time to panic

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. Bank of Canada governor Stephen Poloz has said that over 720,000 households could struggle to make debt payments during a downturn.

It looks like that time has come–even the federal government is acknowledging it.

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Author
rvanzo