# More Proof the Housing Bubble Has Popped

## Description

The good times are over.

According to Canada Mortgage and Housing Corp., the pace of construction fell from 219,363 units in September to an annual pace of 192,928 units in October. The biggest decline stemmed from weak construction of urban multi-unit projects such as condominiums. This category declined by a sizable 15%.



The biggest regional detractor by far was British Columbia, led by Vancouver.

Until this summer, Vancouver was the hottest real estate market in North America. Compared to 2015 levels, the Vancouver area was seeing average home prices increase by 25% or more with the median selling price topping $1 million. This year Royal LePage had expected Vancouver prices to rise by 27%.

“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 at the time.

However, last month new construction starts dropped 45%. A new tax on foreign buyers was to blame.

“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.”

**Both good and bad**

While the real estate bonanza is over, that doesn’t mean that Canada’s economy will come down crashing.

According to **Bank of Montreal** (TSX:BMO)(NYSE:BMO) economist Robert Kavcic, perhaps this should be viewed as a soft landing.

“October’s tally brings activity back down to the very stable (and fundamentally supported) range seen between 2010 and mid-2015, before activity broke out to the upside," he said in an investor note. This suggests that levels have simply normalized from extreme highs and aren't necessarily that worrisome.

Still, he cautions that investors should monitor certain regions to make sure the declines flatten out. "We'll see if this level of activity, particularly in Vancouver where starts fell to the lowest since 2011, holds in the months ahead in response to softening demand conditions," Kavcic added.

If things deteriorate further, Canada could be in trouble.

Bank of Montreal had previously warned that rapidly rising real estate markets might 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.

The biggest area of concern is Canada's rising debt levels.

This year Statistics Canada 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.

Bank of Canada governor Stephen Poloz has said that over 720,000 households could struggle to make debt payments during a downturn. That could start a credit crisis quickly with a risk on contagion for a Canadian economy still reeling from a weak loonie and collapsing oil markets.



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**Date**
2025/08/26
**Date Created**
2016/11/08
**Author**
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