



## Thanks Christy Clark: You've Just Worsened Vancouver's Housing Crisis

### Description

B.C. Premier Christy Clark has accomplished the seemingly impossible task of uniting every academic and economist in the province in a unanimous decrying of her recently announced B.C. HOME Partnership Program.

For those unfamiliar with the latest mind-boggling development, the premier announced Thursday that the province would match up to \$37,500 or 5% of a home's price saved by first-time buyers via an interest and payment-free loan for the first five years (out of a 25-year repayment period) provided that the home's value is less than \$750,000, the gross annual income of the buyer is less than \$150,000, and that they're pre-approved for an insured high-ratio mortgage for at least 80% of the home's purchase price.

In a province that's already grappling with one of the most overheated housing markets in the world, this decision by the government to essentially hand out "free money" is incompetence at best and cronyism at worst.

### The program will add to Canada's debt burden

It's quite ironic that Christy Clark's announcement came on the same day as the release of the Bank of Canada's (BOC) annual Financial System Review. According to the BOC, the number one vulnerability facing the Canadian economy was the rising level of household indebtedness.

As per the report, the national ratio of debt to disposable income is approaching 170%, sustained by strong growth in mortgage credit and consumer credit with Vancouver and Toronto leading the rest of the country in terms of loan-to-income ratios.

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*Canada's rising debt burden (Source: BOC).*

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*Toronto and Vancouver lead the country in mortgage debt levels (Source: BOC).*

It goes without saying that Christy Clark's newly introduced initiative will serve to drive up Canada's debt burden as an estimated 42,000 families will take advantage of the province's "generosity." Moreover, with interest rates expected to tick up in 2017-2018, this new policy initiative could have disastrous consequences once the five-year honeymoon period elapses.

### **Expect metro Vancouver housing prices to increase even more**

Furthermore, the newly announced program will exacerbate the already sky-high housing prices in Vancouver. As reported by news outlets, Vancouver's housing bubble had begun to cool prior to the implementation of the foreign buyers' tax. Despite the brief respite, Vancouver home prices are still out of reach for the majority of the province's residents based on current income levels, and Vancouverites have sought out housing in the surrounding areas or in condominiums and semi-detached units.

mls-affordable-home-sales

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*56% of Metro Vancouver sales have been under \$750,000 in 2016 YTD as buyers sought out affordable homes (Source: BCREA).*

However, even these "affordable" alternatives will see their prices go up as sellers will naturally take advantage of the rising demand and the extra cash available to buyers. Although Christy Clark has (shockingly) stated that prices will not increase, unless the city dramatically ramps up supply in the coming years, basic economics decree that there is no possible way for this to happen.

### **The supply issue needs to be addressed**

If the premier truly cared about the affordability of homes in the province, she would have let the market cool through its own devices and allowed the empty homes and foreign buyers' tax to play out.

Furthermore, an even better solution would have been to address the supply side, as the Greater Vancouver Regional District is currently facing a dearth of multifamily developments due to restrictive

zoning laws and bureaucratic red tape; for example, according to a *Globe and Mail* interview, B.C. finance minister Michael de Jong estimates there to be 120,000 new units currently awaiting approval.

bc-housing-supply

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*A stark decoupling of units in the pipeline, awaiting completion versus completed homes. (Source: BCREA).*

### The bottom line

And just when we were beginning to see a soft pullback in Vancouver's housing prices, the Liberals have introduced a policy that will exacerbate the housing crisis, while driving Canadians further into debt. Therefore, even as a first-time home buyer, I'm really hoping that Christy Clark and Co. do the right thing and repeal this poorly-thought-out program.

In the meantime, if you want to invest in Vancouver's red-hot real estate, stick to a REIT such as **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)).

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1. Editor's Choice

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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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