



2 Ways Canada Housing Is About to Get a Booster Shot

Description

Canadian home sales fell sharply in 2018, and prices were down marginally across the nation. The country's largest metropolitan areas have still seen steady price increases, but affordability has grown into a major issue. There has been some movement to make up for the lack of supply in major cities like Toronto, but so far these plans have been very modest.

Back in December, I'd [discussed housing projections](#) heading into 2019. A report from **Canadian Imperial Bank of Commerce** projected that housing would be a drag on Canada's overall growth this year. However, there is a concerted effort coming from the private and public sector to boost housing in early 2019.

Banks lowering mortgage rates

On January 16, **Royal Bank** dropped its five-year fixed mortgage rate from 3.89% to 3.74%. The other big banks are expected to follow suit in the coming weeks. This drop has been in response to December's decline in the five-year bond market. Yields have fallen below 2%, and banks are attempting to adjust to a new normal. It would also seem to signal faith in a dovish path going forward. The Bank of Canada kept the benchmark rate steady at 1.75% in December.

The rate cut comes just in time for the busy season. March, April, and May have historically seen the highest levels of activity for real estate. Banks are moving to aggressively make their targets, so the timing is perfect right before the big season.

Federal push for affordability

Housing affordability was a huge issue in the recent Toronto mayoral election and the Ontario provincial election. With a federal election looming in the fall of 2019, the Liberals are laying out a plan to make home buying more affordable for younger demographics. However, Finance Minister Bill Morneau did not elaborate on just how the government would move forward.

In 2015, the Liberals had pledged to enhance the Home Buyers' Plan, which enables first-time buyers to borrow up to \$25,000 tax-free from their RRSP toward the purchase of a home. Progress on this promise has been slow, and there are concerns that expanding the plan has the potential to heat up a housing market that governments have worked to chill.

Last year the [CMHC announced that it would take measures](#) to make it easier for self-employed workers to qualify for a mortgage. Tweaks to lending rules did not come into effect until late 2018, so the busy season of 2019 will give investors a new look at how this policy will impact lending.

Are alternative lenders a risky bet?

Equitable Group ([TSX:EQB](#)) stock has climbed 11.4% in 2019 as of mid-afternoon trading on January 31. Shares are still down marginally year over year. Although a 0.15% rate cut will provide some relief, qualifiers at big banks remain stringent.

Alternative lenders like Equitable Group will continue to attract borrowers as the market heats up in 2019. Equitable Group stock is pricey but not overbought as we head into February. Canada will be even more reliant on real estate activity with an oil patch in crisis in 2019.

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