



## ALERT: The Only Thing That Can Stop the Hot Canada Housing Market

### Description

Canada housing prices in several major metropolitan areas have climbed 20% or more in the year-over-year period. When the pandemic first reared its head in Canada, many onlookers expected that it would result in a sharp correction in real estate. Sales did dip sharply early on, but this slump didn't last. By the late spring and early summer of 2020, Canada housing was already [roaring back](#). Today, I want to look at one development that could [stop the momentum](#) for this sector in 2021. Let's dive in.

### Canada housing is attracting global attention

The price spike in the Canada housing market has started to attract the attention of the worldwide press. Reports from the *New York Times* and *Bloomberg* have cast their eye on Canada's real estate sector as prices and bidding war have sparked shock and dismay. Economists like David Rosenberg have said that the sector is in "a huge bubble."

These prices are rising at an alarming rate, but asset valuations have been ballooning across the board. Canada housing is still supported by high demand, low supply in major metropolitan areas, and loose monetary policy that has made borrowing easier. If these realities remain, it is hard to see Canada housing suffering a significant dip in the foreseeable future. However, there is one thing that can slow down Canada's hottest real estate markets.

### Will the government throw cold water on this market?

In early 2017, Canada was wrestling with another sharp spike in housing prices. At the time, experts and analysts pointed the finger at foreign buyers in Canada's major metropolitan cities. British Columbia had already introduced a foreign buyer tax in the previous year that successfully cooled its housing market. Ontario followed suit in the spring of 2017.

Ontario's "Fair Housing Plan" was introduced in April 2017. It included a 15% non-resident speculation tax on the price of homes in the Greater Golden Horseshoe (GGH). Ontario expanded rent controls and introduced actions to bolster housing supply. It unveiled housing advisory groups and promises to

crack down on excessive speculation.

The new foreign buyer tax and the “Fair Housing Plan” successfully cooled the Ontario housing market, for a short time. Canada housing speculation moved to cities in Montreal that experienced spikes, but they were not as pronounced as those seen in Vancouver and Toronto.

Those worried about the current run are calling for government intervention. However, there is less willingness to intervene at this stage. Canada’s economy is still in recovery mode and more lock downs may be looming as health officials warn of a third wave. The Bank of Canada has said that Canada housing has grown too essential to tinker with right now.

## What investors should expect in the months ahead

**Home Capital Group** ([TSX:HCG](#)) became the face of the 2017 housing crisis in Canada. The company came to the brink of collapse as it was forced to reckon with questionable underwriting practices. Fortunately, Home Capital managed to right the ship with an assist from Warren Buffett. Home Capital stock fell below the \$10 mark during the 2017 panic. The stock has since enjoyed a rewarding bull run. Shares have climbed 73% year-over-year as Canada housing has roared.

The company’s earnings have benefited from Canada housing’s big bull run. In 2020, Home Capital announced growth of 45% in diluted earnings per share. Mortgage originations rose to \$6.95 billion in 2020 – up from \$5.66 billion in the prior year.

Government intervention is probably the one thing that can slow down the Canada housing bull run right now. However, policymakers appear unwilling to consider going down that dangerous path as Canada wrestles with the COVID-19 pandemic.

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