

MORTGAGEBROKERS OTTAWA

CREA forecasts record home market this year

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Canadian real estate sales and prices are poised to set records this year, according to a new forecast that is bound to reignite calls in some quarters for tighter lending rules.

The Canadian Real Estate Association, which represents 100 boards across the country, said Monday it expects existing-home sales to reach 527,300, a 13.3% increase from a year ago and a 1.2% increase from the record high set in 2007.

The new-home market appears to be picking up steam, too. Canada Mortgage and Housing Corp. said there were 186,300 starts in January on a seasonally adjusted annualized basis, the highest level of new construction since October 2008.

Bank of Canada governor Mark Carney has warned about rising levels of household debt, which is reaching record levels. Finance Minister Jim Flaherty has suggested he is prepared to tighten mortgage requirements and continues to monitor the market.

"One of the legitimate concerns of the Finance Minister might be if you make qualifying for mortgage default insurance prematurely restrictive that it will quell housing activity even as erosion in affordability continues," said Gregory Klump, chief economist with CREA.

There are have been some rumblings that the government is considering new rules that would require buyers who need mortgage insurance to have at least 10% down and amortize their mortgage over just 25 years instead of the current 35 years.

Anybody with less than a 20% downpayment must get mortgage insurance, if they are borrowing from a financial institution governed by the Bank Act.

Mr. Klump's group contends the market is going to correct on its own in the second half of 2010. CREA has called for sales to drop 7.1% in 2011. The group says that while prices will rise by 5.4% in 2010, to a record high of \$337,500, they will drop by 1.5% in 2011.

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That view of the housing market is not out of step with some economists, who say that once interest rates rise and inventory levels increase, price increases will shrink. Year-over-year price increases in some markets, such as Toronto, have been around 20% for the past few months.

"There is still a sense of urgency to get into the market. The market will continue to be strong over the next few months," said Benjamin Tal, senior economist with CIBC World Markets, adding he could see new construction also touching 200,000 starts before beginning to fall.

Part of that urgency in the housing sector is being driven by the introduction of the harmonized sales tax in Ontario and British Columbia on July 1. The tax would apply to real estate services and could increase the cost of buying a home by a few thousand dollars.

"It's a factor fuelling a higher level of activity in Ontario and British Columbia," Mr. Klump said. "What's more Canadian than avoiding taxes?"

Elton Ash, vice-president of Re/Max of Western Canada, said he thinks the forecast put out Monday was a little optimistic for 2010, specifically the 4.2% price increase for British Columbia. "But I also think the market will be better in 2011 [than CREA]."

Mr. Ash is actually in favour of some measures to cool the market, like reducing the amortization period back to 25 years. But he wonders whether increasing the downpayment will take some people out of the housing market.

"I think leaving it at 5% would be okay," Mr. Ash said.