MORTGAGE PROFESSIONALS CANADA | PROFESSIONNELS HYPOTHÉCAIRES DU CANADA

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Federal policies suppressing housing activity, creating a negative shift in sentiment for homebuyers, according to latest consumer report

TORONTO (July 25, 2018) New government policies are causing consumers to have a more negative outlook for housing and real estate in Canada, according to the newly released *Report on the Housing and Mortgage Market in Canada* by Mortgage Professionals Canada. While there is still broad agreement among consumers that real estate remains a good investment, the overall strength of consumer sentiment has been weakened by increasing interest rates and the new rules making it harder for homebuyers to secure mortgage financing.

"We are still seeing a high level of desire in homebuying, especially among young people aged 25-34," said Paul Taylor, President and CEO of Mortgage Professionals Canada. "Whether they will be able to make that purchase may be an entirely different matter."

The report suggests that fortunate first-time buyers are finding ways to supplement their down payment with help from their parents. This is benefiting those lucky enough to have family who have the financial means to assist them, but it is leaving a lot of middle-class Canadians behind. More and more young people are getting used to the idea that they may never own a home and become permanent renters. With an increasing concern on income and wealth inequality, current policies that create a permanent generation of middle-class renters could increase wealth inequality as the ability to own homes and generate long-term equity becomes more and more difficult.

"We support a stress test, albeit at a reduced rate of 0.75%, as it is a useful tool to test a borrower's ability to make future payments," commented Taylor. "However, the cumulative impact of rising rates, a 2% or greater stress test, provincial government rules in Ontario and British Columbia, and further lending restrictions are negatively supressing housing activity not just in Toronto and Vancouver, but throughout the country."

The report highlights that policies which cause house prices to fall will reduce home equity and this in turn would impair consumer confidence, resulting in reduced spending, slower economic growth and diminished job creation.

Stress Test Challenges

The report also notes that one of the most dangerous things that can happen to the Canadian economy is for house prices to fall.

"While we would normally expect falling prices to generate an increase in demand in the housing market, we have seen historically that this can actually reduce demand," explained Will Dunning, Chief Economist for Mortgage Professionals Canada and author of the report. "Significant price drops put into question the reliability of the market as a whole, causing prospective buyers to fear that values will fall further."

In addition, the report showcases that although the market is behaving the way it should in response to actual economic conditions, homebuying trends have been disrupted by stress tests. There is now an imbalance between supply and demand in almost every region of the country. In Toronto and Vancouver, the weakened market has been seen as a welcome change, though elsewhere in the country it has proven to be more unstable, where conditions were already soft, and price stability is being replaced by price erosion.

"The effects of these policies are especially concerning in areas that are already dealing with economic instability, notably Alberta, Saskatchewan and Newfoundland and Labrador, which are struggling to recover from the oil price shock," said Dunning. "The worsening divide between housing supply and housing demand is further degrading the confidence consumers have in the economy and in housing."

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Mortgage Professionals Canada is the national mortgage industry association representing 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Its members make up the largest and most respected network of mortgage professionals in the country whose interests are represented to government, regulators, media and consumers. Together with its members, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel originates over 35% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in annual economic activity. With this diverse and strong membership, Mortgage Professionals Canada is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

A copy of the report can be found HERE.

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