

***Canada does not have a housing “bubble”***  
***Low interest rates have supported rapid growth of house prices in Canada***

Toronto (March 12, 2014) – It is widely accepted as a fact that Canada is in a “housing bubble”. A new report from Canadian housing market economist Will Dunning explores the issues, in **How to Dissect a Housing Bubble**, released today.

“The smoking gun in the discussions has been data from the Organization for Economic Co-operation and Development, which shows that Canada has the ‘most over-valued housing markets in the world’. The problem,” said Mr. Dunning “is that the OECD research, in complete innocence, has relied on bad data”.

The report by Dunning uses data from Royal LePage’s long-running house price survey. It finds that while house prices are indeed at an historic high relative to rents for comparable housing, the level of house prices in Canada is fully justified based on record low levels of interest rates.

At the end of 2013, there was room to accommodate a rise in mortgage interest rates by as much as one percentage point, or a further 20% to 25% rise in house prices.

“From this perspective,” continued Mr. Dunning, “we might even say that Canadian house prices are ‘under-valued’. The best way to look at this is that Canadians know that interest rates can rise. They have been prudent, with the result that the housing market has left a considerable amount of room to absorb a future rise in interest costs.”

Other highlights:

- Conditions vary across the country. Until very recently, Vancouver and some areas of British Columbia were showing characteristics of a bubble. Recent market adjustments appear to have deflated the bubble, in a surprisingly orderly way.
- Alberta had a short-lived bubble during 2006-07. Following a protracted adjustment in local housing markets, there is now substantial room to accommodate higher interest rates.
- When housing affordability is calculated using the interest rates that can actually be obtained in the marketplace (rather than “posted rates”, which virtually no one actually pays) affordability remains quite favourable.
- Actual housing construction exceeds the so-called “demographic requirement”. We should not be concerned about that: if too much housing was being produced we would be seeing high vacancies in the rental market and excess supply in the resale market. Housing supply and demand have been in balance in Canada.
- Activity has slowed in the resale market, and more gradually for housing starts. This is not the result of any change in economic fundamentals. It results from government policy.
- The housing market has led the Canadian economy out of the recession and into expansion. Deliberate attempts to slow housing activity are putting the economy at risk: the recent sharp deceleration of job creation in Canada is due, in part, to induced weakness in housing activity.