ECONOMIC CONSULTANT:

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VERICO & Outline Financial Economic Report

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Great Mortgages. The Right Insurance. Expert Advice.

5 *Significant* Numbers You Should Know

$186,000

The amount that government taxes, fees and charges add to the cost of a new single family home in the Greater Toronto Area.

$121,000

The amount that government taxes, fees and charges add to the cost of a new high rise apartment unit in the Greater Toronto Area.

$85,000+

The average cost of obtaining municipal approvals in Victoria per apartment unit.

$8,000

The added cost per apartment unit in Vancouver due to the new speculation tax, which applies to bare land acquired to build multi-unit developments while waiting an over a year for civic approvals.

ZERO

The amount of time the BC Finance Minister said was spent modeling the impact of the new speculation tax, the new school tax and the increase in property purchase tax on the real estate market.

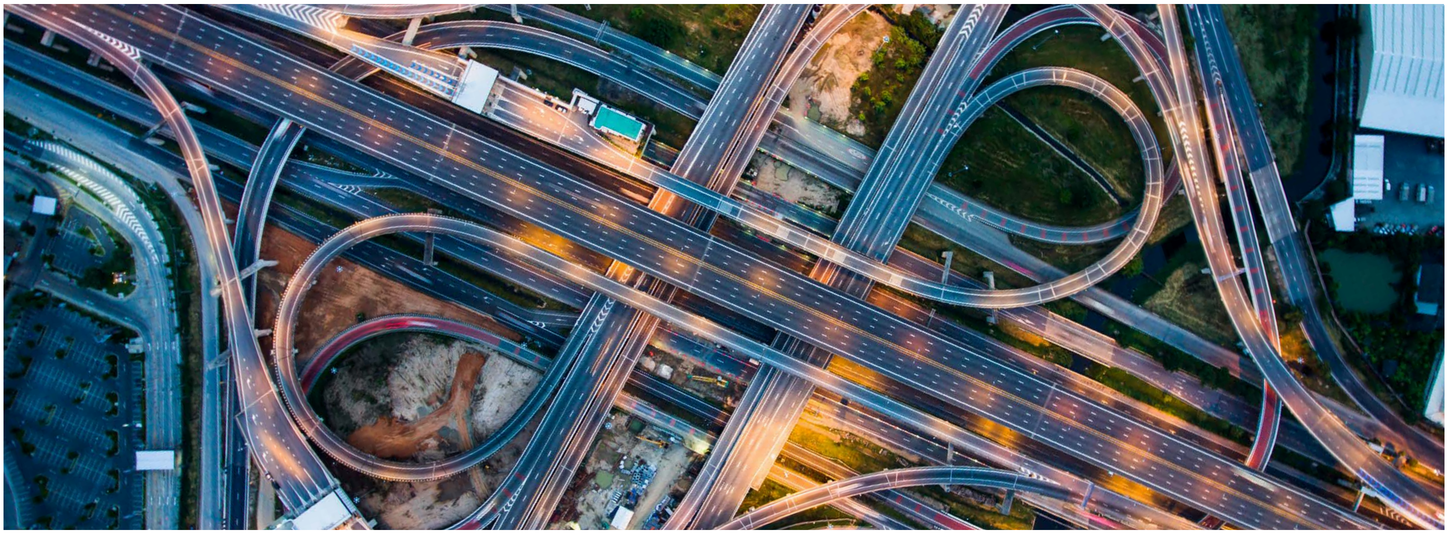
Quote of the Month

> Sometimes I wonder whether the world is being run by smart people who are putting us on, or by imbeciles who really mean it.

Mark Twain

What's Going On?

- Governments get their wish
- Mortgage applications crater
- Economic growth slows
- BC's real estate tax grab
- Government policy hurts affordability



So What's Going On?

File this under "things that make you go Hmmm." Saturday I was reading the latest real estate numbers while I was at a Chinese restaurant in Vancouver when the waiter brought the bill with the customary fortune cookie. I cracked it open, pulled out the little piece of paper and read the following - "Unless we change direction, we are likely to end up where we're headed."

That's a scary thought. Since 2016 the BC and Ontario provincial governments along with the Feds have been looking to cool the real estate market, especially in Vancouver and Toronto. I think they can safely say, "mission accomplished" but it leaves me wondering where are we headed as new taxes, regulations and higher mortgage rates are about to kick in?

One sure thing is that nobody in government knows. Contrary to popular myth, governments can't "manage" or "control" the economy. If they could they've got an awful lot of explaining to do starting with the subprime mortgage crisis, the massive shakeout in retail or high unemployment in the Maritimes led by Newfoundland at 14%.

It's not that governments can't influence the economy with tax policy, interest rates and regulation but that's a far cry from "controlling" or "managing" it. History is a litany of unintended consequences from government policy. No one in Europe sat back and said I know how to get youth unemployment over 50% in Spain and Greece. No one planned years of economic stagnation, which resulted from a raft of bad policies.

While it may be comforting for some people to imagine an all-powerful government that can control the economy, it's not possible. There are literally tens of thousands of variables involved – both domestic and international that need to be anticipated and controlled.

> **Unless we change direction, we are likely to end up where we're headed.**

This Is What's Scary

If governments can't control the economy then they certainly can't fine tune it. Yet that is what they pretended to be able to do in implementing not just the new mortgage stress test but numerous new regulations and taxes introduced in BC and Ontario.

Both BC and Ontario governments said they wanted to slow the real estate market and lower the prices. The stated goal is to enhance affordability but never defined how far activity would have to drop and how far down prices would have to go in order to make homes "affordable."

The scary part is that once the market slows they have no idea how far it will drop.

Quick example - they had no idea that single family home sales on Vancouver's once hot North Shore market would drop as much as 75% in some areas in March. That's more than a slowdown by any measure.

The Federal Government

At the federal level the Finance Ministry estimated that the new stress test rules in conjunction with rising interest rates would remove thousands of potential buyers from the market but it was only a guess. Even the Bank of Canada is unable to predict when and how high interest rates will rise, which will amplify the impact of the new stress test rules.

Already mortgage growth nationally has taken a major hit. For the first 3 months of 2018 the growth in mortgage applications crashed to the lowest level since 2001 at only .3%. That was before the latest .45% increase in 5 year fixed mortgage rates at the TD with other banks increasing rates by a lesser amount. Upward pressure on bond rates, along with 3 or 4 predicted increases in the US suggests there is more to come on the interest rate front.

Key Statistics

The impact of higher rates will extend far beyond first time buyers given that 47% of Canadian mortgages have to be renewed in the next 12 months.

Only 22% of current mortgages are for 3 years or longer, which means that 78% of Canadian mortgages must be refinanced – and it will be at higher rates.

(The good news is that millions of Canadians will need a good mortgage broker in the next three years to help them navigate the changes.)

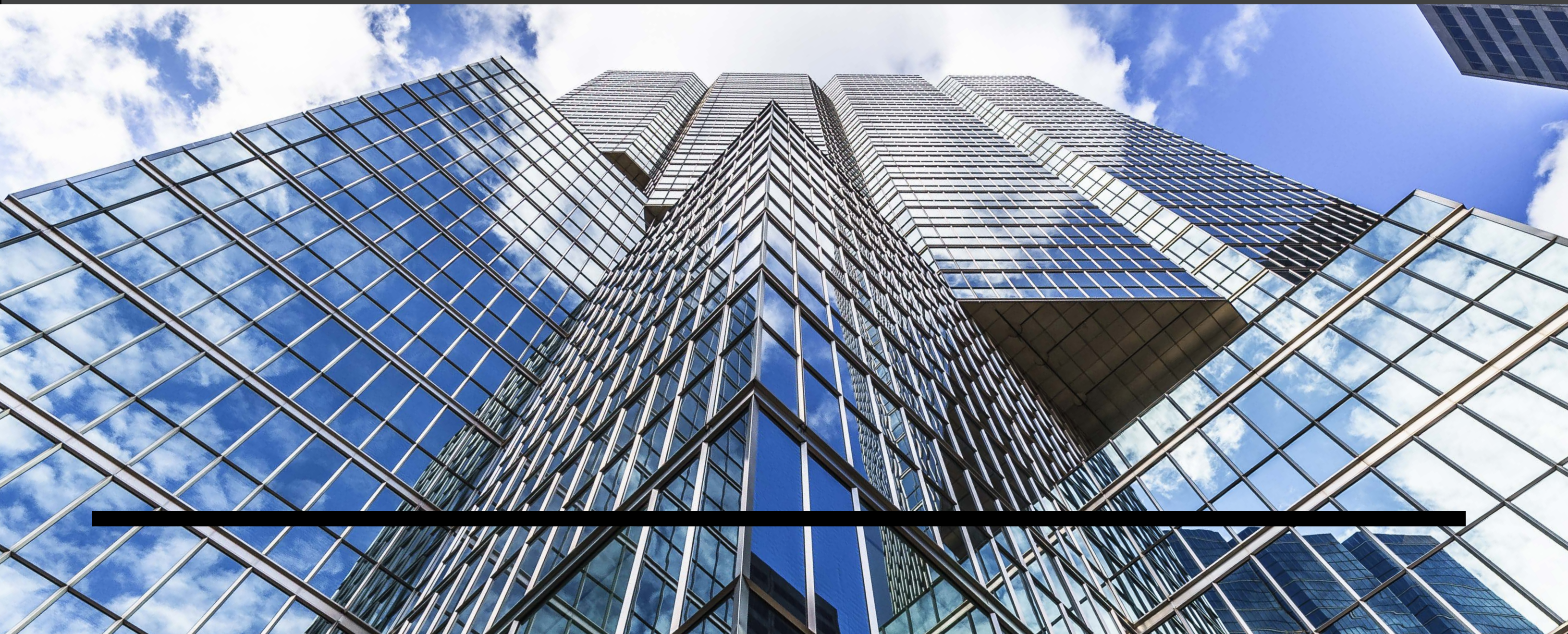
The Economy and Interest Rates

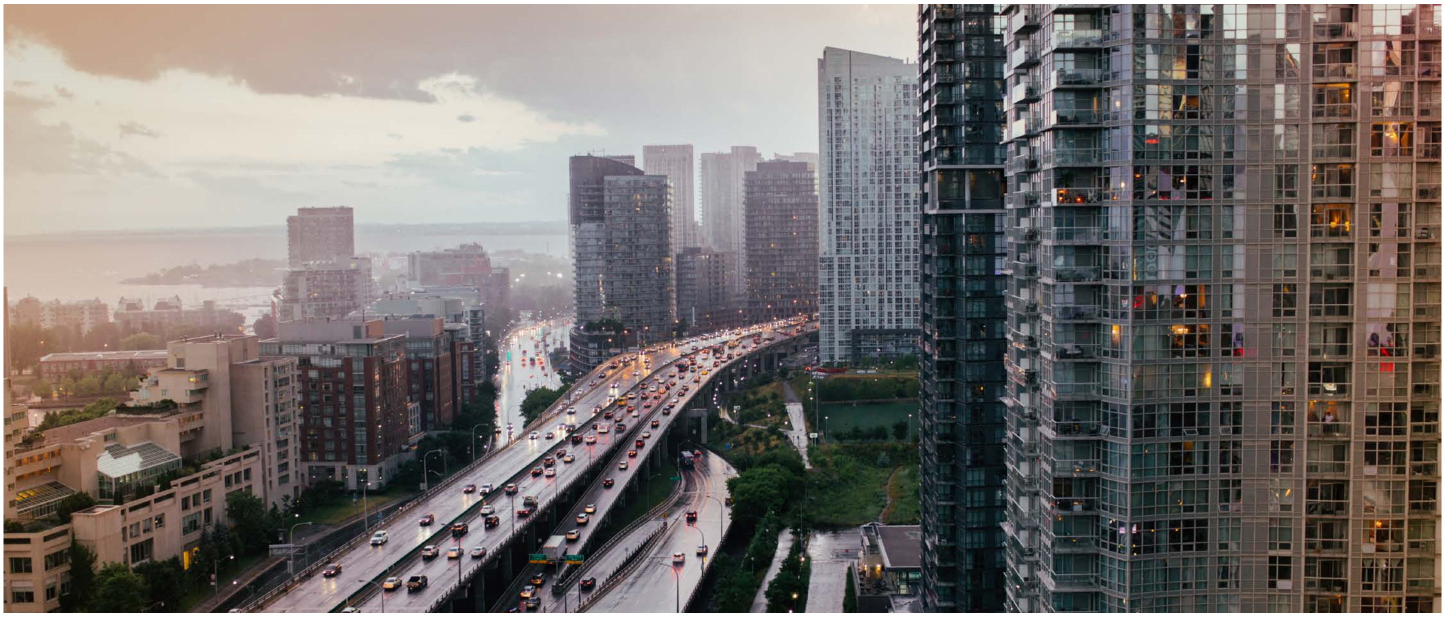
For years a headline story has been the increasing level of personal debt, which has now reached $1.70 for every dollar of disposable income. The latest numbers show that Canadians have $1.53 trillion in mortgage debt. For many rising mortgage rates will be a problem.

In April, a MNP survey found that 25% of Canadian mortgage holders were already feeling the strain of higher rates. This is consistent with an IPSOS survey done in October after the first two interest rate hikes. At that time 42% of respondents said they couldn't afford an additional $200 a month in expenses with 70% saying they were already curtailing their spending.

The latest increase in rates will mean more than $200 in extra monthly expenses for a good percentage of mortgage holders when they renew. That's on top of higher gas prices, increased carbon taxes in BC and Alberta, higher car insurance rates in BC, property tax increases in every major urban centre and other mandatory cost increases from governments across the country.

A significant number of mortgage holders will be forced to cut back discretionary spending, including retail, the auto sector and restaurants. This is one reason that the Bank of Canada's forecasts economic growth to slow to 1.9% this year and hit only 1.5% in 2019.





Ontario

The Vancouver and Toronto real estate markets and to a lesser degree other urban centres like Hamilton, Victoria and Montreal have been the focal point of Federal policy along with specific policies in both Ontario and BC designed to slow the market.

The Ontario government's 16 point plan reduced activity and lowered prices immediately, especially in single family homes and the slowdown has continued right through April.

Toronto sales are down 32% compared April, 2017 when the market peaked. The overall activity is the lowest since 2003. The first four months of the year are the weakest since 2009.

The big change is the 24% drop in listings from last April, which guarantees slower activity with a closer balance between buyers and sellers.

In Hamilton sales were off 32.4% compared to the April peak in 2017 and was nearly 22% lower than the 10 year average. Averages prices are down just over 8% from last April.

Ottawa managed to buck the trend with an 13% increase in sales compared to last year but all of the activity is before the latest mortgage rate increase.

British Columbia

The mortgage stress test, along with the foreign buyers tax, the two increases in the property purchase tax that apply to single detached homes have slowed the single detached market dramatically and in April condo sales joined in.

Activity in Vancouver's single detached market in April was the weakest in 30 years. The entire Great Vancouver area witnessed the slowest sales of single family homes in 17 years. More telling is the fact the overall sales are down 22% compared to the 10 year average.

In April the formerly red hot condo market slowed with sales declining 24% compared to the same month last year but prices are still up a whopping 23.7% in that time.

The big change to the overall market environment is the 27% increase in overall listings compared to last year. Listings are up over 17% in the last month alone. The lack of listings has played a major role in price increases despite the decrease in activity.

Keep in mind the decline in activity has taken place before the recent mortgage rate hikes and before the raft of new rules introduced in the February budget by NDP Finance Minister Carol James take effect.

In an astounding admission NDP Finance Minister Carol James admitted that the government did no modelling on the impact of a myriad of new measures including the increase in the property purchase tax from 3% to 5% for properties over $3 million – (which includes the vast majority of single detached homes in both West Vancouver and the west side of Vancouver), the addition of a new school tax on homes over $3 million, a new speculation tax for homes over $400,000 not occupied for over 6 months in Greater Vancouver, Victoria, Nanaimo and Kelowna.

In addition, the foreign buyers tax was expanded to apply through-out the province and was raised from 15% to 20%. That means that a foreign resident would pay $750,000 in taxes on the purchase of a $3 million home in BC while a Canadian resident pays only the property purchase tax of $150,000.

The new measures are being met with significant opposition. Green Party leader, Andrew Weaver, (whose 3 members provide the BC NDP with a majority), shed some light on the latest measures. He stated that the new real estate measures are not going to solve the housing crisis but are instead "a cash cow" for the government.

Affordability

Political hand-wringing over the lack of affordability in urban centres like Vancouver and Toronto is laughable. Consider the "Significant Numbers" above. Government adds $186,000 to the price a new single detached home in the Greater Toronto Area - $121,000 to the price of a condo.

In Vancouver, developers make a Community Amenity Contribution along with paying Development Cost Levies and soon a new Utility Development Cost levy. And hot off the press - a just announced Translink Development Levy, which will increase the price of a new residential unit by $1,500 to $2,850 depending on the type of dwelling. All told the various charges add up to over $85,000 to the cost of a new 800 sq. ft. unit in a concrete building.

The new provincial speculation tax will apply to vacant land while developers wait for approval and is estimated to add an additional $8,000 to an average unit. Then buyers pay a property purchase tax of $12,000 for the average Vancouver condo, which is now $701,000.

The list of government related charges goes on and on. And now mortgage rates are rising, which will further make housing in every market less affordable. Back to the fortune cookie - "Unless we change direction, we are likely to end up where we're headed."

Montreal's Turn?

Lots of talk about a real estate resurgence in Greater Montreal where the median price for a single detached home in April is $317,000, which sounds like a heck of a bargain compared to the median price in Toronto of $870,000 and $1.4 million in Vancouver. It will be interesting to see the degree to which foreign buying impacts the market as the foreign buyers tax in BC and Ontario encourages buyers to look elsewhere.

The Final Word Goes To Ronald Regan

> " When it comes to affordable housing and helping the first time buyer get into the market, the 9 most frightening words in the English language are: "I'm from the government and I'm here to help." "

About - Michael Campbell

One of Canada`s most respected business analyst, Michael is best known as the host of Canada's top rated syndicated business radio show MoneyTalks, and Senior Business Analyst for BCTV News on Global.

Mr. Campbell is the Economist for VERICO, Canada's most respected network of independent mortgage brokers.

About - VERICO Canada

VERICO was founded in 2005 with a single idea: to unite top mortgage originators in Canada and create additional opportunities for this group of highly driven professionals. Together, we knew we could make a mark on the Canadian mortgage industry.

In 2010, we reached $10 billion in collective loan volume, a number that rivaled the mortgage business of the big 5 banks in Canada.

Operating at the highest degree of professionalism, excellence and ethical standards, we originate over $15 billion by helping 45,000+ families annually with their mortgage needs.

VERICO was named Best Broker Network of the Year in 2009, 2013, 2014, 2016 and 2018.

About - Outline Financial

Outline Financial is one of Canada's top mortgage and insurance teams offering direct access to rate and product options from over 20 banks, credit unions, mono-line lenders and insurers all in one convenient service.

The Outline team was formed by senior level bankers and financial planners that wanted to offer their client strategy and choice with an exception service experience.

Outline Financial's mortgage team is a member of the award winning Verico Network and operates under Verico Premiere Mortgage Centre Licence #10317.