



# VERICO ECONOMIC CONSULTANT: MICHAEL CAMPBELL

VERICO Economic Report

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# AFFORDABILITY IS THE WORD



Politicians don't seem to understand that restricting demand is negative for the economy while trying to mitigate the affordability crisis by increasing supply encourages economic growth. Michael Campbell believes that affordability can be improved, but only by looking at both supply and demand issues.

# 5 Significant Numbers You Should Know



13%

An Equifax survey found that 13% of Canadians believe it's acceptable to tell a "little white lie" when applying for a mortgage.

\$61

In Denmark, thanks to negative interest rates, a \$150,000 mortgage, adjustable every 6 months – costs only \$61 per month. (Copenhagen house prices are up 40% in last 5 years.)

1.25

On May 1, 2017 there were 1,690 active listings in Victoria and 1,353 licensed agents. If they all share nicely, that's 1 ¼ listings per agent.

10 million

It's estimated that Calgary has 10 million sq ft of vacant office space with more coming on stream soon. Meanwhile Edmonton's available commercial space has doubled in the last 12 months.



\$2.4 million

Median price of a single detached home:  
 Quebec City - \$245,000  
 Ottawa - \$427,000  
 Vancouver - \$2.4 million.

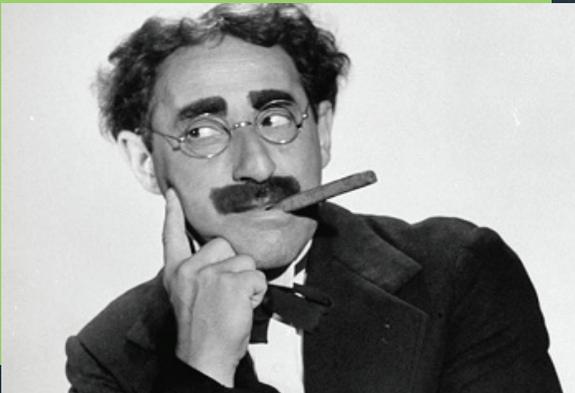
## Quote of the Month

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“Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies.

”

Groucho Marx



# *“I’m from the government and I’m here to help.”*

I think that anyone working in the real estate industry can be forgiven for waking up in a cold sweat muttering what Ronald Regan called the 9 scariest words in the English language: “I’m from the government and I’m here to help.”

All three levels of government have set their sights on cooling both the Vancouver and Toronto real estate markets along with Victoria, Hamilton and Saskatoon but to whose benefit? What’s rarely mentioned is that not a single homeowner in any city benefits from lower prices and reduced liquidity.

Governments are saying they are trying to help first time buyers but so far the

new measures are designed to protect the banks and CMHC’s exposure from a downturn. The Canadian banks’ major risk exposure is from a decline in residential real estate values and that has both the government and Moody’s credit rating service worried. Moody’s has already downgraded Canada’s big six banks citing credit risks associated with any downturn in the housing market.

Why do I get the feeling that we may live to regret a government induced slowdown in real estate given it’s the most important industry in 7 out of 10 provinces at a time when overall economic growth is in slow motion and the global economy is so fragile.



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# *What's Going On?*



The six major Canadian banks downgraded by Moody's



Politicians confused about affordability



Bank of Canada not ready to raise rates... with good reason



Governments want a bigger tax cut of real estate... is your primary residence a target?



The Trump factor



# Affordability

*If affordability is the goal, which is of course a major big issue in both the Toronto and Vancouver areas, then our politicians are very confused. Let's start with the question how far would prices have to fall to make a single detached home affordable? Thirty, forty, even fifty percent if we're talking single detached homes in the Vancouver and Toronto regions. There's a word in economics for that level of decline - it's called a depression.*

There is nothing like a depression to bring asset prices down.

The key to understand is that there is a big difference between addressing the affordability problem through reducing demand versus increasing supply. So far politicians have focused on reducing demand by implementing the foreign buyers tax in Greater Vancouver and just recently in Toronto, (and proposed in Victoria), to the changes to mortgage eligibility rules that impact

markets across the country.

Vancouver's foreign buyers tax introduced last August, seems to have had a short term impact on sales of single detached homes given the dramatic reduction in activity but it hasn't made single detached homes (or condos) more affordable for people looking to get in the market.

That's because none of those actions get to the root of the problem, which is lack of supply in both Vancouver and Toronto.

Greater Vancouver is expected to add 1.2 million people in the next 23 years, which guarantees a massive housing shortfall. In Toronto, the discrepancy between population growth and new units coming on stream is even greater. This year it's estimated that 80,000 more people will come into the Toronto area but only 1500 more units are scheduled to come on stream.

It is interesting that politicians don't seem to understand that restricting demand is negative for the economy while trying to mitigate the affordability crisis by increasing supply encourages economic growth. Sadly the vast majority of politicians have chosen to attack the demand side. That strategy won't work and it will cost the economy.

## Shocking Stat

\$608,000 – that’s the total tax paid by a non-resident buying the average home on the westside of Vancouver – (the benchmark price \$3.5 million). Sounds high? Consider that in the recent BC election the Green Party proposal to raise both the foreign buyers tax and the property purchase tax would have pushed the tax burden to \$1,470,000 on the same home.

Even at \$608,00 it’s hardly surprising that on the short-term, activity in single detached homes dropped along with prices in Vancouver. Ironically the introduction of Vancouver’s foreign

buyers tax along with an increase of the property purchase tax on homes over \$2 million played a significant role in pushing prices higher in Toronto, Victoria, Kelowna and America’s number one market, Seattle as foreign investors took their money elsewhere.

And Calgary could be the next beneficiary. The recent stabilization of oil prices along with the foreign buyers tax now in both Toronto and Vancouver will continue to encourage foreign buyers to look elsewhere. Calgary may be next on the list of foreign capital seeking safety and diversification.

## Did the Federal Government Just Pull a Fast One?

The Canada Mortgage and Housing Corporation has just announced a new policy that will see the Crown Corp pay dividends to the federal government. This comes on the heels of the CMHC increases what it charges to insure a mortgage.

Not many people seem to notice but the practice of transferring all or some of CMHC’s net income will mean that insurance rates won’t be coming down anytime soon regardless of market related risk. After all the federal government needs the money given that at the current rate it is projected to run deficits until 2050.



# *Is Your Home The Next Big Tax Target?*

Speaking of deficits, total federal and provincial debt is now over \$1.3 trillion and growing. The financial reality is that governments desperately need money and arguably the biggest source of untapped tax revenue is the profit on the sale of a primary residence.

There are already plenty of people who publicly have stated that it's somehow unfair that homeowners are not sharing the profits on the price increase on their homes. Their argument is that you have to pay capital gains on any profits on stocks, bonds, precious metals - so why not your home.

In BC, the Green Party has already promised to tax gains in excess of \$750,000 on the sale of any primary residence held under 5 years and nobody raised an eyebrow.

My bet is they are just the first political party to make it official. As the financial



pressure on governments increase due to things like escalating healthcare costs, we'll see other politicians demand a piece of the profits on principal residences.

Keep in mind that starting in 2016, any sale of a primary residence has to be reported. Enforcement is being increased for those illegally claiming the principal residence exemption but it also opens the door for capital gains tax to be levied on that portion of your property that is rented - could be a carriage house or even a basement suite.

My point – government could raise billions by limiting the capital gains exemption on your primary residence – and my bet is that they will.

## *Interest Rates and the Economy*

Despite positive growth numbers in the first quarter, the Bank of Canada continues to say that higher interest rates are not on the immediate horizon because there is still too much uncertainty. And they're right.

Moody's agrees, which is why they reduced the credit rating on the big six banks.

How long the softwood lumber dispute drags on will determine the extent of the damage to Canada's industry. Lay-offs

have already begun in Quebec with the estimates of potential lay-offs across the country hitting as high as 25,000. In BC, forestry is the number one industry in 40% of rural communities.

The renegotiation of NAFTA is officially on, which adds to the overall uncertainty. So far President Trump's been all over the map when it comes to the renegotiation of NAFTA. One moment he says the agreement with Canada needs tweaking and the next he's back calling it the worst trade deal ever made.

## Fact Check

President Trump is clearly incorrect when he states that NAFTA is the worst trade deal ever made. The worst trade deal I've ever seen is the Seattle Supersonics sending Scottie Pippen to the Chicago Bulls for Olden Polynice. Toronto Maple Leaf fans may disagree citing the Scott Neidermayer to New Jersey for Tom Kurvers trade. Of course Flames fan will immediately jump in with - "oh yeah, we sent soon to be super sniper, Brett Hull to St Louis for well past their prime veterans Rob Ramage and Rick Wamsley." And



Canuck fans will not remain silent as long as the Cam Neely to Boston for Barry Pederson trade isn't mentioned.

Well, no matter, I think we can all agree that compared to those deals, NAFTA looks pretty darn good.



## *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 trusted 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 and 2016.



**BROKER NETWORK  
OF THE YEAR**

2013 | 2014 | 2016

CANADIAN MORTGAGE AWARDS