

Editorial – Yes, there’s a housing bubble. No, Ottawa has no clue what to do

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The improbably steep increases in housing prices in the Vancouver and Toronto areas are not sustainable, says the Bank of Canada. Well, duh. *Maclean’s* recently estimated that, if the current rate of increase continues unabated, the average price of a home in Canada in 2040 will be \$21-million. Evidence suggests that something has to give.

What to do about this, or whether to do anything at all, is the question facing governments of all levels. The Mayor of Vancouver, where the average price of a detached home hit \$2.87-million earlier this year, has been urging Ottawa and the government of British Columbia to do something – anything! – to cool the market.

Bank of Canada Governor Stephen Poloz added his voice to the chorus on Thursday when he warned that the rising prices, combined with elevated levels of Canadian household indebtedness, are a threat. An economic downturn that cut housing prices, or a sharp increase in interest rates, or both, could put hundreds of thousands of Canadian homeowners in financial difficulty.

It’s a sticky situation for governments. Moves such as bringing in new taxes to discourage

foreign ownership, encouraging even more new housing construction, or tightening mortgage rules to limit borrowing, could cool prices. But pushed too far, they might lead to a drop in prices – something no one wants, given that the threat that various economists have long worried about is an event that causes housing prices to abruptly reverse course.

But before deciding on a response, you first have to figure out what you’re responding to. And nobody can say for sure what the problem is with the housing market, or whether there even is a problem. We cannot say for certain why housing is behaving as it is, and neither can Mr. Poloz. This *is* knowable – it’s just that governments have for years failed to gather the data that would make the unknown, known. In particular, there’s too little information on what is widely suspected to be one of the key drivers of prices, namely offshore money, particularly from China. It’s widely suspected to be a driver, but that’s far from proven.

The federal Finance Minister, Bill Morneau, said this week that Ottawa will do a “deep dive” into Canada’s housing market and figure out what is causing prices to surge in Vancouver and Toronto. He had better get his deep-divers moving quickly.