

Editorial – Canadian housing: Something about the price is not right

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Something doesn't feel right about the Canadian housing market. Gut instinct isn't necessarily the best guide to policy. But as the sense of risk continues to rise in lock-step with soaring housing prices, it's wiser to heed these gnawing worries than hold back until government has all of the information on hand to know whether the growing concerns are justified.

Because by then it will be too late. Canadians can't afford to wait until they know for sure precisely what factors are driving Canada's housing market. In the absence of the kind of good, hard information we've long called on the government to gather, it makes sense to fall back on traditional, self-preserving Canadian values of prudence and caution.

Acting on these concerns, Canada's banking regulator has taken the rare but attention-getting step of issuing a public letter to financial institutions that heralds a stricter scrutiny of their lending practices – which it worries have become too loose. The Office of the Superintendent of Financial Institutions (OSFI) rightly noted that the combination of exceptionally low interest rates and rapid price increases for real estate, particularly in Vancouver and Toronto, has greatly magnified the risks for all concerned.

OSFI's letter said it was particularly worried about "borrowers relying on income from sources outside of Canada." That touches on the tricky question of the role of foreign buyers in Canada's housing price explosion. Given the paucity of good data (see the B.C. government's eyebrow-raising finding, released Thursday, that just 5 per cent of recent Metro Vancouver buyers are foreign nationals), it remains infuriatingly unclear to what extent offshore money is or is not heating up Canada's real estate market.

Even though policy-makers don't yet have a perfect picture of what's driving the housing market, it's reasonable to look at raising lending standards as well as mortgage standards. OSFI is rightly concerned that the homeowners, and their bankers, are extremely vulnerable if and when economic conditions deteriorate. Many borrowers will be unable to withstand either an economy that turns down or mortgage rates that move up.

Finance Minister Bill Morneau has convened a study group of experts who have been asked to examine the mysteries of the current housing market. But in the meantime, a more watchful, conservative approach to lending is needed. Prudence is a virtue.