BoC's Poloz warns about speculation in Toronto housing

By Janet McFarland
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Bank of Canada Governor Stephen Poloz is warning about "unsustainable" speculation in the Toronto housing market as a new report shows both Toronto and Hamilton recording 2-per-cent house price increases last month, setting a March record for the pace of price growth.

Mr. Poloz told reporters Wednesday that forces such as immigration and economic growth have justified Toronto's steady rise in house prices in prior years. But with prices more recently jumping by over 30 per cent, "there is a growing role for speculation in that."

"There's no fundamental story that we could tell to justify that kind of inflation rate in housing prices.... Demand is being driven more by speculative demand or investor demand, as opposed to just folks that are buying a house," he said.

The Bank of Canada saw a similar disconnect between fundamental demand and price growth in Vancouver over a year ago, he added, and it was not sustainable. A price that is climbing at over 30 per cent annually "has divorced itself from any fundamentals that we can identify" and is moving to "an unsustainable zone."

"I think it's time we remind folks that prices of houses can do down as well as up," he said.

Mr. Poloz made his remarks after the Bank of Canada issued its latest monetary policy report, noting house sales have increased significantly in the Greater Toronto Area and parts of the so-called Golden Horseshoe area near Toronto, which includes Hamilton.

"Price growth in the GTA has accelerated and seems to have entered a phase in which speculation is playing a larger role," the central bank said.

Teranet released data on monthly house sales earlier Wednesday, reporting that the Teranet-National Bank National Composite House Price Index – which measures monthly price increases in 11 major metropolitan markets in Canada – climbed by 0.9 per cent in March over February, which was a record March increase.

The gain is primarily attributable to four markets included in the index – Hamilton, Toronto, Victoria and Vancouver – with Hamilton rising most quickly at 2.1 per cent in March, and Toronto gaining 1.8 per cent. Both cities set price gain records for March, and Toronto recorded its 14th consecutive month of prices increases while Hamilton has seen prices grow for 13 straight months.

Toronto also reported a record annual gain in March compared to a year earlier, with prices rising 24.8 per cent in March over the same month last year, while Hamilton also recorded a record 19.7-per-cent gain in March compared to a year earlier.

National Bank economist Marc Pinsonneault said evidence clearly points to speculation in the Toronto market.

He said expanded Teranet data covering 26 metropolitan areas in Canada shows 14 markets, or 54 per cent of cities, recorded double-digit home price inflation in March compared a year earlier, which looks similar to U.S. price inflation in 2005 prior in that country's major real estate market correction. Ten of the cities with double-digit home price increases are in Ontario.

The trend may convince governments in Canada to impose new policy measures to make the housing market more sustainable, and should spur the Bank of Canada to move closer to raising interest rates to cool the market, Mr. Pinsonneault said.

"The Bank of Canada could also help address the problem by ditching its dovish rhetoric and signal tighter monetary policy ahead to reflect improving economic data but also mounting risks to financial stability," he said.

But Mr. Poloz appeared to dismiss the idea of raising interest rates to cool real estate prices in Toronto when speaking to reporters, saying a modest increase in rates will not deter a speculator who believes a house will be worth 20 per cent more in a year.

"Interest rates are not what is fuelling that speculation," he said.

The Teranet report measures sale prices recorded with public land registries at the time deals close. The numbers are slightly lower than price gains reported last week by the Toronto Real Estate Board (TREB), which showed the average home price in the Greater Toronto Area climbed by 33.2 per cent in March. The TREB data is based on residential sales recorded in the MLS system as deals are inked.

The Teranet report shows prices in Victoria climbed by 1 per cent and Vancouver prices grew by 0.9 per cent in March. Vancouver has recorded total price gains of 2.6 per cent in the first three months of 2017 after seeing prices fall by 2.8 per cent in the last quarter of 2016.

Winnipeg and Montreal also reported strong gains of 0.6 per cent and 0.5 per cent respectively in March.

The report shows how divergent Canada's housing market has become, however. While the Toronto and Hamilton areas recorded soaring prices in March, five major cities saw prices drop in March over February, including Ottawa-Gatineau, Calgary, Halifax, Edmonton and Quebec City. Edmonton has seen prices drop in six of the past seven months.

Also Wednesday, Urbanation Inc. reported that rent increases for condominium apartments in Toronto showed signs of moderating in the first three months of 2017.

Condo rents grew by 8.3 per cent in the first quarter of 2017 over the same period a year ago, with rent now averaging $1,993 per month. The pace of rental growth was lower than the 11.6-per-cent rate recorded in the last quarter of 2016.

Excluding new condo units coming into the rental market, the annual rental growth rate in the first quarter this year was 5.5 per cent, down from 6.8 per cent in the last quarter of 2016, Urbanation said. The report measures average rental data for condominium apartments leased in Toronto through the MLS system.

The Ontario government has pledged to expand rent controls in the province to curb large rent increases. Rent controls in Ontario currently apply only to buildings constructed before 1991, but the government announced in March it is considering "substantive" changes after hearing complaints from tenants about huge rent increases.

The province has not yet unveiled what steps it will take to expand rent controls, however.

Shaun Hildebrand, senior vice-president at Urbanation, said the basic message from the 2017 rental data is that rent growth "isn't as outrageous as suggested by a couple of isolated instances reported recently" where tenants were informed their rents were doubling.

"The rental market is self-governing, and rent controls are not necessarily justified," he said. "If enacted, it will likely cause proposals and construction to stall, impacting much needed supply down the road."

The Urbanation study credits a growth in the supply of condos for moderating rental increases, saying 11,316 newly completed condo apartments reached their final closing during the past six months, representing a 33-per-cent annualized increased.

The result is that market conditions “showed a bit more balance,” with the average number of days rental condos remain on the market increasing to 20 this year from 13 in the fourth quarter of 2016, and the percentage of units leasing for above asking rent declining to 9 per cent from 17 per cent in the previous quarter.

Mr. Hildebrand said market forces are tempering rent increases, but supply shortages could emerge after 2019 unless there is “meaningful growth” in the launch of new purpose-built rental units.