Committee urges Ottawa to aid first-time home buyers

By Bill Curry
April 14, 2017 – *The Globe and Mail*

A nearly year-long parliamentary study of the Canadian housing market has concluded with a call for Ottawa to help first-time home buyers, but to otherwise stay on the sidelines.

The House of Commons finance committee released a report Thursday with a set of cautious recommendations for how Ottawa should approach the calls for government action, particularly in hot housing markets such as Toronto and Vancouver.

While recommending a response to the concerns of first-time home buyers, the committee also urged the federal government not to make any quick decisions. Only seven months have passed since Finance Minister Bill Morneau unveiled a series of policy measures aimed at discouraging Canadians from taking on too much mortgage debt.

The committee called for Ottawa to wait until a clear picture emerges of how those changes have influenced the market before taking any further action.

“We’re saying take a pause in terms of the national policy approach,” said Liberal MP Wayne Easter, who chairs the committee. “But I think in terms of specific housing markets, Vancouver and Toronto, they are going to be looked at very specifically and there may be things that can be done at the provincial and municipal levels to either cool those markets down or assure some greater stability in them.”

The committee advice comes ahead of a Tuesday meeting in Toronto where Mr. Morneau will meet with Ontario Finance Minister Charles Sousa and Toronto Mayor John Tory to discuss the Greater Toronto Area housing market.

On Thursday, Mr. Sousa took aim at speculators in the housing market during a prebudget speech in Toronto, calling them “property scalpers” and saying that they were partly responsible for limiting the supply of homes as prices skyrocket in the Greater Toronto Area.

While Mr. Sousa said he will table a balanced budget on April 27 that will include a large boost to health spending, he warned that any response to the housing market will be limited to avoid unintended consequences.

“Market forces will ultimately prevail, but we’re just trying to figure out what we can do without overcorrecting the system while at the same time providing for greater support for those who want to get into the market,” he told reporters.

The federal committee report mentioned that some witnesses listed speculation as a factor influencing rising prices, but the MPs did make a specific policy recommendation on that issue.

The report does not make a specific recommendation as to how the government should help first-time home buyers either. In a dissenting report, Conservative MPs pointed to testimony from the banking, real estate and construction sectors that said first-time home buyers were most affected by changes made last October. The Conservatives said a stress test imposed as part of those changes should be altered for first-time home buyers.

The October announcement extended to all insured mortgages a stress test already in place for high-ratio mortgages – where the down payment is less than 20 per cent. The government said the change was aimed at ensuring home buyers could still afford the payments in the event that interest rates were to rise.

The stress test means home buyers seeking an insured mortgage must qualify at the Bank of Canada's five-year fixed posted mortgage rate, which is usually higher than the rates offered by mortgage lenders.

Mr. Easter said the committee study was extremely challenging because of the large amount of conflicting information and advice from organizations involved in the housing sector. He expressed hope that new money for housing market data announced in the March 22 budget should help inform future policy decisions.

In testimony to a Senate committee hearing in Ottawa on Thursday, Bank of Canada Governor Stephen Poloz and his top deputy, Carolyn Wilkins, again expressed their concern about the Toronto and Golden Horseshoe housing markets. Ms. Wilkins repeated the central bank's view, laid out in its quarterly Monetary Policy Report released on Wednesday, that "speculative forces" appear to be behind the most recent price spikes, and cautioned that the price surge may not be sustainable.

While Mr. Poloz acknowledged that years of low interest rates from the Bank of Canada are "playing a role in creating that situation," he remained adamant that rate increases would not be the best way to address the problem. He said higher rates from current levels wouldn't dissuade speculators who have been betting on 20-per-cent-plus annual price appreciations, and would have a negative impact on other regions and other parts of the economy.

"The Bank of Canada's interest rate is for all of Canada, not just the Toronto market," Mr. Poloz said. "It's not the right tool for the job."

CIBC chief economist Avery Shenfeld argued in a research note Thursday that higher rates could actually be a good thing for Canada's housing market.

"Raising rates within the next year would be a natural policy step as part of any plan to keep the economy from spilling beyond full employment into an inflation problem, and would also help moderate house prices," he said.