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Your Community Real Estate News — *Fall 2016*

Market Watch

October, 2016 --Toronto Real Estate Board President Larry Cerqua announced that Greater Toronto Area REALTORS® reported 9,902 sales through TREB's MLS® System in September 2016. This result was up by 21.5% compared to the same month last year. Mid-October's numbers showed sales of 4,460 homes, up 15.5% from last year as well. While the number of listings increased slightly in the first half of this month, it was still lower than the number of sales, contributing to increased competition between buyers.

For the region as a whole, strong annual rates of sales growth were experienced for all major home types. The pace of detached sales growth was slower in the City of Toronto and the number of semi-detached sales was down compared to last year. In both cases, the year-over year dip in new listings was likely the issue. "We continued to see strong demand for ownership housing up against a short supply of listings in the Greater Toronto Area in September. The sustained lack of inventory in many neighbourhoods across the GTA continued to underpin high rates of price growth for all home types," said Mr. Cerqua. This was also very true for the condominium market where we are seeing increased levels of competition.

Both the MLS® Home Price Index (HPI) Composite Benchmark and the average selling price for all home types combined were up strongly on a year-over-year basis in September. The MLS® HPI Composite Benchmark grew by 18% compared to September 2015. The average selling price was up by 20.4% to $755,755. It is important to remember that the MLS® HPI provides a price growth measure for a benchmark home, thereby allowing for an apples to apples comparison from one year to the next. The average selling price can be influenced by changes in both market conditions and the mix of homes sold. "The Toronto Real Estate Board will be closely monitoring how the recent changes to Federal mortgage lending guidelines and capital gains tax exemption rules impact the housing market in the Greater Toronto Area. While these changes are pointed at the demand for ownership housing, it is important to note that much of the upward pressure on home prices in the GTA has been based on the declining inventory of homes available for sale," said Jason Mercer, TREB's Director of Market Analysis.

Inside This Issue

Updates From Our Office

The K/B Team continues to grow! We've recently added two key members to the team: Nicoletta Palozzi joins us from Royal LePage Porritt as our new full-time Business Administrator, bringing years of customer care experience to our administrative team. Nikku Sharma has joined the Real Estate Sales side of our group, moving from Royal LePage Terrequity, and bringing energy and her years of experience to our Buyers and Sellers. Having already surpassed our yearly business goals at the 3rd quarter mark of the calendar year, we are looking forward to the extra hands, brains and experience as we continue to grow our business across all parts of the GTA and in all price points.

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Four Major Changes to Canada's Housing Rules

Bill Curry OTTAWA — The Globe and Mail Published October 3, 2016

The Liberal government has announced sweeping changes aimed at ensuring Canadians aren't taking on bigger mortgages than they can afford in an era of historically low interest rates. The changes are also meant to address concerns related to foreign buyers who buy and flip Canadian homes. Below is a breakdown of the four major changes announced by Finance Minister Bill Morneau.

The current rules: Buyers with a down payment of at least 5% of the purchase price but less than 20% must be backed by mortgage insurance. This protects the lender in the event that the home buyer defaults. These loans are known as "high loan-to-value" or "high ratio" mortgages. In situations in which the buyer has 20% or more for a down payment, the lender or borrower could obtain "low-ratio" insurance that covers 100% of the loan in the event of a default.

Mortgage insurance in Canada is backed by the federal government through the Canada Mortgage and Housing Corporation. Insurance is sold by the CMHC and two private insurers, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. The federal government backs the insurance offered by the two private-sector firms, subject to a 10% deductible.

1. The change: <u>Expanding a mortgage rate stress test to all insured mortgages.</u>

What it is? As of October 17th, a stress test used for approving high-ratio mortgages will be applied to all new insured mortgages – including those where the buyer has more than 20% for a down payment. The stress test is aimed at assuring the lender that the home buyer could still afford the mortgage if interest rates were to rise. The home buyer would need to qualify for a loan at the negotiated rate in the mortgage contract, but also at the Bank of Canada's five-year fixed posted mortgage rate, which is an average of the posted rates of the big six banks in Canada. This rate is usually higher than what buyers can negotiate. As of September 28th, the posted rate was 4.64%. Other aspects of the stress test require that the home buyer will be spending no more than 39% of income on home-carrying costs like mortgage payments, heat and taxes. Another measure called total debt service includes all other debt payments and the TDS ratio must not exceed 44%.

Who it affects: This measure affects home buyers who have at least 20% for a down payment but are seeking a mortgage that may stretch them too thin if interest rates were to rise. It also affects lenders seeking to buy government-backed insurance for low-ratio mortgages.

Why? The government is responding to concerns that sharp rises in house prices in cities like Toronto and Vancouver could increase the risk of defaults in the future should mortgage rates rise.

2. The change: <u>As of November 30th, the government will impose new restrictions on when it will provide insurance for low-ratio mortgages.</u>

What it is? The new rules restrict insurance for these types of mortgages based on new criteria, including that the amortization period must be 25 years or less, the purchase price is less than $1-million, the buyer has a credit score of 600 and the property will be owner-occupied.

Who it affects: This measure appears to be aimed at lowering the government's exposure to residential mortgages for properties worth $1-million or more, a category of the market that has increased sharply in recent years in Vancouver and Toronto.

Why? Vancouver and Toronto are the two real estate markets that are of most concern for policy makers at all levels of government. These measures appear to be targeted at those markets.

3. The change: <u>New reporting rules for the primary residence capital gains exemption.</u>

What it is? Currently, any financial gain from selling your primary residence is tax-free and does not have to be reported as income. As of this tax year, the capital gains tax is still waived, but the sale of the primary residence must be reported at tax time to the Canada Revenue Agency.

Who it affects: Everyone who sells their primary residence will have a new obligation to report the sale to the CRA, however the change is aimed at preventing foreign buyers who buy and sell homes from claiming a primary residence tax exemption for which they are not entitled.

Why? While officials say more data are needed, Ottawa is responding to extensive anecdotal evidence and media reports showing foreign investors are flipping homes in Canada and falsely claiming the primary residence exemption.

4. The change: The government is launching consultations on lender risk sharing.

What it is? Currently, the federal government is on the hook to cover the cost of 100% of an insured mortgage in the event of a default. The federal government says this is "unique" internationally and that it will be releasing a public consultation paper shortly on a proposal to have lenders, such as banks, take on some of that risk. The Department of Finance Canada acknowledges this would be "a significant structural change to Canada's housing finance system."

Who it affects: Mortgage lenders, such as banks, would have to take on added risk. This could potentially lead to higher mortgage rates for home buyers.

Why? The federal government wants to limit its financial obligations in the event of widespread mortgage defaults. It also wants to encourage prudent lending practices.

How Will New Mortgage Rules Impact the Toronto Market?

By Tess Kalinowski, Real Estate Reporter, with files from Sunny Freeman Toronto Star, October 5, 2016

As the average cost of a Toronto-area home climbed 20% in September over the same month last year, the Toronto Real Estate Board (TREB) promised to closely monitor new mortgage rules introduced on October 17th.

The changes announced by Finance Minister Bill Morneau include a "stress test" on all new insured mortgages and stricter tax exemption laws for real estate. They are aimed at preventing consumers from taking on too much debt, but are also designed to inject some calm onto the country's hottest housing markets. That includes Toronto, where, inside the city limits, the cost of a detached house averaged $1.3 million last month, according to TREB figures released on October 19th.

But it will be at least the end of the year before it's known what, if any impact, Ottawa's announcement has, said TREB's director of market analysis.

"Any time you're seeing policies that could influence the demand, there's a few different ways it could play out," said Jason Mercer. "In the past, we've seen a mix where some households may take a step back and temporarily reassess their situation, others may look at different housing types or different areas to purchase a home." And for some, it won't affect their decisions at all. "They'll continue on as they have," he said.

A TREB news release notes that the effect of the demand for housing is amplified significantly in the Toronto region by the lack of supply, something the government measures won't necessarily address. In fact, despite a shortage of new listings, the number of September sales rose 21.5% to 9,902 transactions compared to the same month last year.

The only housing category with declining sales was semi-detached homes in the city. Those dropped 3.5% due to a lack of listings and detached home sales in Toronto were well below the regional average, with only a 4.7% increase. The average home price in the region in September was $755,755, up from $627,867 a year ago. That includes condos. In Toronto, the average price was $764,872 compared to $750,549 in the 905 communities. The average condo price across the region was $422,002, with city apartments selling for $334,294 on average, about $80,000 more than units in the regions outside Toronto. Under the new federal rules, starting October 17th all insured mortgage holders will have to qualify at the five-year Bank of Canada rate, a condition that was previously only applied to those with shorter fixed or variable terms.

Later in the fall, Ottawa plans to increase the insurance criteria on mortgages for 80 per cent or less of the property's value. The new rules won't apply to current mortgages and owners renewing their loans. Responding to concerns about the role of off-shore investment in pushing prices in the scorching Vancouver and Toronto markets, Morneau is also removing a tax exemption for foreign owners.

The changes to mortgage rules and capital gains taxes for foreign buyers probably won't halt the upward trends of the Toronto market because there are so many factors that make the region attractive, said Philip Brown, Broker of Record with Keller Williams Neighbourhood Realty. When it comes to indicators of economic health and stability such as population growth and a diverse economic and industrial base, "Toronto is unique to any other city in Canada in that it ticks all of those boxes," he said.

A lot of the activity that drove the real estate fervour in Vancouver was based on it being an attractive investment, said Brown. "Toronto offers people a really safe place to put their money, it gives them all the things in an area that would want you to move there or to hold onto real estate there, rather than seeing it as a speculative flip," he said. For the same reason, Toronto's condo market has continued to thrive when for years people predicted its crash, said Brown.

As well as investors, condos have attracted first- and second-time buyers who have chosen townhomes and condos as an alternative to moving away from their preferred location. "It just moved people that are making their buying choices based on lifestyle, rather than budget, to take up all of the excess capacity in the condo area," he said.

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