



# VERICO ECONOMIC CONSULTANT: MICHAEL CAMPBELL

VERICO Economic Report  
FEBRUARY 2018



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# 4 *Very Significant* Numbers You Should Know



20%

The proportion of Vancouver's population increase between 2004-2015 attributed to non-permanent residents ie. international students and temporary workers.

20%

Also the estimated percentage of mortgage application rejections from large banks and traditional monoline mortgage lenders in January.

\$313  
billion

The Bank of Canada's official value of Canadian residential mortgages financed by non-banks – trusts, credit unions and other financial institutions.

\$392  
million

The amount of mortgages Laurentian Bank is buying back after auditing \$655 million worth of mortgages and finding that borrowers had "embellished" their income and assets.



# Mike's MINUTE UPDATE

Click to see a short update from Michael Campbell.



## About Michael Campbell

One of Canada's most respected business analyst, Michael is best known as the host of Canada's top rated syndicated business radio show MoneyTalks, and Senior Business Analyst for BCTV News on Global.

Mr. Campbell is the Economist for VERICO, Canada's most respected network of independent mortgage brokers.

## *Quote of the Month*

“

I hope I don't sound like an old-fashioned stick-in-the-mud, but when I hear about people making vast fortunes without doing any productive work or contributing anything to society, my reaction is : *“How did they get elected.”*

”

Dave Barry



# *What's Going On?*

- Mission Accomplished: Real Estate Market Fall
- Condos Are King
- Rising Rates
- The NDP Battle Royal Between Alberta & BC
- US/Canada Tax and Regulatory Costs Going In Opposite Directions

Governments at all levels have been relentless in their efforts to reign in real estate - the top industry in 7 out of 10 provinces. Just think of how hard they've worked.

In February, 2016 the former Liberal government in BC increased the property purchase tax on homes over

\$2 million (impacting the vast majority of single detached homes in Vancouver). They then followed up with the introduction of the 15% foreign buyers tax for residential properties in Metro Vancouver.

The Federal government followed up with new rules

for insured mortgages. Not to be outdone the Ontario Liberals introduced a 16 point plan to cool the market. Some might say "derail" the market. And finally the Federal government extended the new stress test rules for every mortgage application.

# Judging by recent headlines governments got their wish:

## MACLEAN'S

Canadian real estate prices see biggest drop worldwide

Jan. 29, 2018

## HUFFPOST

Canadian Real Estate Prices Are Fastest-Falling In World, According To U.S. Fed

Jan. 31, 2018

The Canadian Real Estate Association just reported that three quarters of the Canadian market experienced a slump as January sales declined 14.5% compared to December. Toronto sales led the way down with a 26.6% drop while even Vancouver experienced a 10% fall.

Although the results are not surprising given the number of people who rushed into the

## CBC news network

Canadian home sales, listings slump in January with arrival of new mortgage rules

Feb 15, 2018

## thestar.com

*Canadian Home Sales Hit Lowest Level in 3 Years*

Feb 15, 2018

market in December in order to avoid the new stress test rules but sales were still down 2.4% nationally compared to a year earlier.

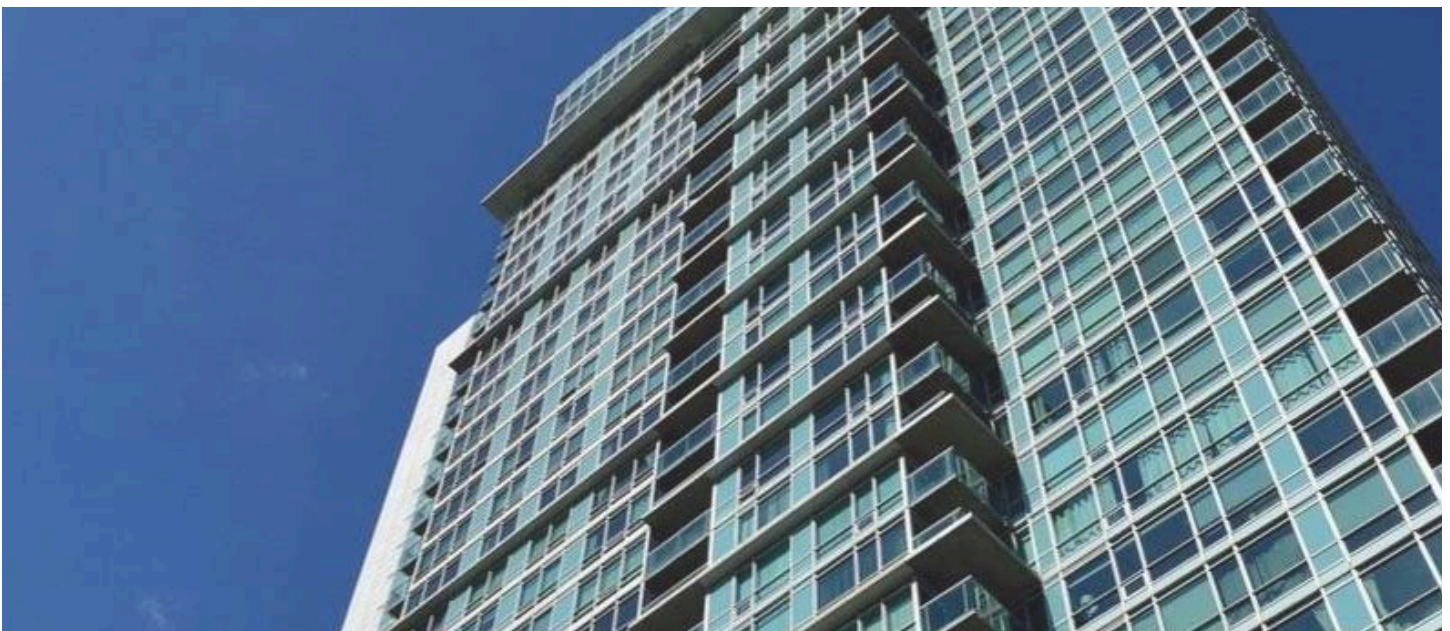
Toronto's decline, which the city's real estate board blames on the Ontario government's actions, continued in January with sales off 22%. While some of the decline is attributed to the December rush it's noteworthy that it's the weakest showing in the last nine years.

## Two Points to Note

CREA reports that 85% of market experienced a drop in the number of newly listed homes. Across Canada the number fell 21.6%, which is the lowest level since the spring of 2009. Obviously lower listings will result in a lower level of sales and fewer mortgages being taken out but the reduced activity won't be followed by significant price declines because demand will outstrip the reduced supply.

As usual when it comes to prices, Vancouver is in a league of its own. Vancouver house prices rose 1.2% in January, which had a huge influence on the national average. Without Vancouver included, the national average price wouldn't show a .03% gain but instead would have dipped for the fifth month in a row.

While prices in all types of housing in Metro Vancouver continue to rise compared to a year ago, the big story is the runaway condo market, which is up 27% since January, 2017. The single detached market is clearly out of the reach for the majority of buyers, who instead are focusing on the condo market. Apartment sales were up 23% compared to the previous January.





## Something Really Interesting That's Not Talked About

Worries over the Vancouver and Toronto markets have driven the real estate related policy changes including the recent stress test rules. Much has been written about the influence of foreign buying, which prompted the foreign buyers tax in both Vancouver and Toronto but what hasn't been widely reported is that the influence of non-permanent residents like foreign students and temporary workers is significantly greater than non-resident foreign buyers.

As noted above, CMHC's reported this month that 20% of Vancouver's population growth and accompanying demand for housing from 2004 to 2015, was due to non-permanent residents. In Edmonton they accounted

for 11% while in Toronto and Montreal the percentage of population growth attributed to non-permanent residents is 8.5%. Even more telling for Vancouver is that they account for 46% of the population growth of the 18 – 46 years old demographic. (In Toronto and Montreal the percentages are 42% and 28%.)

And they've got money. In Vancouver, on average non-permanent residences paid \$230,000 more for single-family units than did permanent residents. In Montreal, they paid 50% more for single-detached dwellings than permanent residents.

One more stat: non-permanent residences

accounted for 10% of all mortgages issued to people under 25 in Vancouver and Toronto. The point is that non-permanent residents, of which the majority are students, are having a bigger impact on the housing market than non-resident foreign buyers.

And there's more to come. The CMHC is reporting a big jump in the last year in the number of foreign students applying to Canadian post secondary institutions. For example, there's been an 82% jump in the number of applications to The University of Alberta from international graduate students.

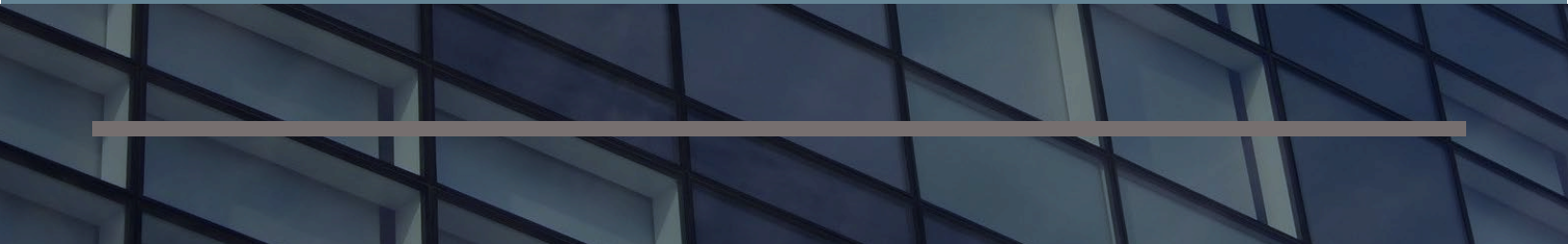
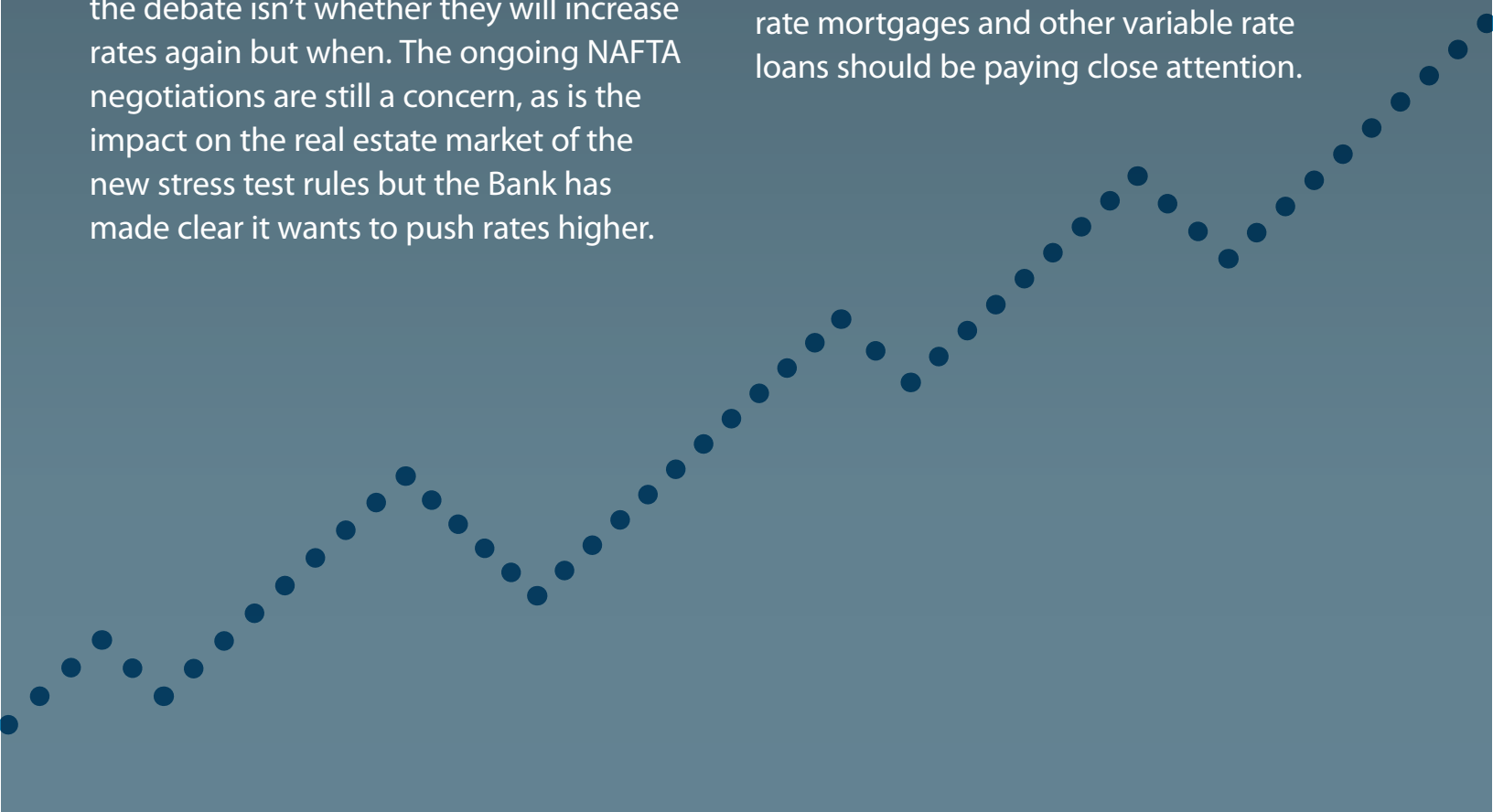


# *Interest Rates*

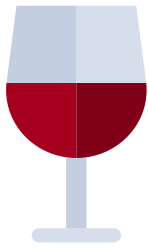
You'd be forgiven for thinking that the government's moto is "if the stress test won't kill 'em, the rise in interest rates will." Three quarter point rises in the last 8 months and the promise is for more to come in both Canada and the US.

The Bank of Canada continually says they are data driven and overall the data is positive. For the vast majority of analysts the debate isn't whether they will increase rates again but when. The ongoing NAFTA negotiations are still a concern, as is the impact on the real estate market of the new stress test rules but the Bank has made clear it wants to push rates higher.

My biggest concern is for mid and longer term rates to move significantly higher over the next three years throughout the world. There is \$230 trillion in debt worldwide and at some point that is going to be a big problem and investors are going to ask for a bigger risk premium in order to entice them to buy bonds, especially if the slight pick-up in inflation gains momentum. Those people with floating rate mortgages and other variable rate loans should be paying close attention.



## *Four Stats On The Pipeline Battle Between BC and Alberta*



**\$70 million**

The annual wine sales from BC to Alberta.



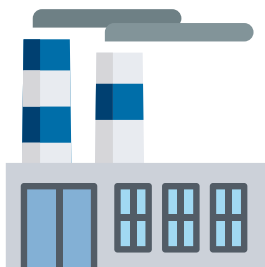
**\$34 billion**

The dollar value of goods and services traded between BC and Alberta.



**\$46.7 billion**

The projected taxes and royalties collected by the federal and provincial governments in the first 20 years of operation of the expanded Kinder Morgan pipeline.



**.0003%**

The best case scenario for reductions in global emissions if the Kinder Morgan pipeline expansion is cancelled.

“

If there is a connecting thread among all these irrational prophecies, and the profoundly harmful policies that the doomsters recommend, it's the precautionary principle, which in practice is based on a confusion between the sensible precept "be careful" and the nonsensical proposition that you can't be too careful, which necessitates taking the worst-case scenario as the outcome that should dictate policy.

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*Nigel Lawson*

*former Chancellor of the Exchequer, UK*

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## The Trump Effect

In a nutshell, President Trump's corporate tax reductions are shaking up the global economy. Countries around the world are reacting to the massive drop in corporate tax rates from 35% to 21%. Dozens of US companies from Walmart to Apple are directly attributing announced salary and employee bonuses to the tax reductions. Apple also announced that they are paying an additional \$38 billion in taxes in order to take advantage of a one time 15.5% tax rate to encourage companies to repatriate cash held overseas. In Apple's case it's \$250 billion.

The important point is that these changes, along with the reduction of regulatory costs are making America incredibly attractive for capital investment, which is a key to future economic growth.

What about Canada? While the US is lowering rates and the cost of regulation,



Canada and the provinces are increasing taxes and the regulatory burden on business. And according to the Prime Minister, it's not going to change.

In January at the World Economic Forum in Davos, Switzerland Prime Minister Trudeau declared that Canada would not match the US reductions, which sends a very interesting message to global capital investors who are choosing where to invest.

## *That About Says It All*

White House Press Secretary on the Prime Minister's Meeting with President Trump

**"Yesterday the president had an incredibly productive set of meetings and discussions with PM Joe Trudeau of Canada."**



## Finally in BC

The NDP's first budget delivered Tuesday took aim at foreign buyers by increasing the foreign buyers tax 15% to 20% and expanding it from just Metro Vancouver to include the Fraser Valley, Victoria, Nanaimo, central Okanagan. In addition, those regions will also be subject to an additional new property tax targeting foreign and domestic homeowners who do not pay income tax in BC.

Households with high foreign income but pay no provincial income tax – the so-called satellite families – will now be subject to paying \$5 of \$1,000 of assessed value in 2018 and \$20 per \$1000 of assessed value in 2019 and beyond.

In addition, the property purchase tax will be raised for all homes over \$3 million from 3% to 5%, which basically means that every home in West Vancouver,

the west side of Vancouver and a smaller number of high priced homes in Victoria, Richmond, the Fraser Valley, Burnaby and Kelowna will be subject to the increase.

The government is also starting a database of presale condo assignments and will share it with Revenue Canada in an effort to assure everyone who buys and sells pays capital gains tax and the foreign buyers tax if applicable.

And finally, the government has promised to spend \$6 billion over ten years to build 114,000 affordable homes. Details will be forthcoming but it's difficult to see how it will have a significant impact on affordable housing in Greater Vancouver, where demand far exceeds supply.

## The Impact

According to Stats Can's latest report foreign buyers represent about 4.8% of the total market in Greater Vancouver with the highest concentration in Vancouver and Richmond at nearly 8%. When the original foreign buyers tax was introduced in August, 2016 many foreign investors looked elsewhere fuelling markets like Seattle and Toronto. Montreal saw a strong uptick in activity when Ontario introduced its foreign buyers tax last April.

In other words, money moved to other locations when the tax was introduced. I wouldn't be surprised if the increased foreign buyers tax and

the new property tax will further take Vancouver off the map for foreign investment. Consider that the purchase of a \$3 million home in West Vancouver will now carry a tax bill of \$750,000 for the foreign buyer, (20% foreign buyers tax + 5% property purchase).

The key impact of the tax increases may be to further reduce single detached sales in Metro Vancouver, which in turn could impact the migration of house rich owners to Victoria, Nanaimo and Kelowna who sold their homes, purchased a similar residence and pocketed the few million dollars difference.

“

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## *About* VERICO Canada

VERICO was founded in 2005 with a single idea: to unite top mortgage originators in Canada and create additional opportunities for this group of highly driven professionals. Together, we knew we could make a mark on the Canadian mortgage industry.

In 2010, we reached \$10 billion in collective loan volume, a number that rivaled the mortgage business of the big 5 banks in Canada.

Operating at the highest degree of professionalism, excellence and ethical standards, we originate over \$15 billion by helping 45,000+ families annually with their mortgage needs.

VERICO was named Best Broker Network of the Year in 2009, 2013, 2014 and 2016.



**BROKER NETWORK  
OF THE YEAR**

**2013 | 2014 | 2016**

CANADIAN MORTGAGE AWARDS