Housing Market Digest

Greater Toronto Area, March 2020

Synopsis: I'm not convinced that I can say anything useful on current market trends or the outlook. But, we should talk about government policies.

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On Hiatus

I'm continuing to watch the numbers and read commentary from people I trust and respect.

I have a lot of opinions about how this might unfold.

But, I know that there are going to be a lot more surprises.

None of us has a perfect crystal ball on how long this will last, how bad it's going to be, how much prices will fall, and what will be the shape of the recovery (whenever that comes).

The most useful discussions at this point are ones that identify frictions and things that can be done to alleviate those frictions.

The best sources for those discussions are the people in the front lines of the economy, who are interacting with clients, employees, suppliers... I am following some of those people quite closely.

I am also taking some reassurance from what our governments are doing, in consulting with the right people, and responding quickly to the rapidly changing situation.

My Two Cents

When we start to emerge from this, the housing market will once again play a really important role. Home buying and home building are very important generators of jobs, thorough their direct impacts and also through the activities that occur in industries that provide goods and services to the processes.

For now, we should be thinking about government policies that will support that contribution, in a way that balances short term needs for stimulus with long-term concerns about managing risk.

I'll start, by making three points

Firstly, the mortgage stress tests, as currently defined, will be an unnecessary impediment that will prevent buying by some Canadians who will be very good candidates for home ownership. The tests will therefore unduly impair the economic recovery.

The arguments I've made in the past continue to apply now and during the recovery, including:

- The stress tests are based on an unreasonably high interest rate.
- They do not consider that income growth and repayment of principal will mute the impacts of future mortgage renewals.

In consequence, I suggest that the stress tests can reasonably use a qualifying interest rate of the greater of 3.5% or the contract rate plus 0.5%.

Secondly, 30-year amortization for insured mortgages continues to make sense. Even with 30-year amortization, repayment of principal is a very aggressive forced saving plan. For example, at a rate of 2.7% (my opinion-estimate of today's typical "special offer" rate for a 5-year fixed rate mortgage):

- With 25-year amortization, 51% of the first payment is principal repayment.
- With 30-year amortization, 45% of the first payment is "forced saving" via principal repayment.

Thirdly, the OSFI requirement to stress test mortgages that are transferred between lenders has become even more of an unnecessary hazard. **The Minister of Finance should direct OSFI to remove that requirement. This can and should be done immediately.**

I'm looking forward to seeing you again.

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