Canada’s housing ‘like the fountain of youth’ — for now

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Norm Betts/Bloomberg

A "Sold" sign stands outside an existing home for sale in Toronto.

Canada’s banks, which emerged from the financial crisis mostly unscathed, stole the spotlight as they were recognized as the world’s strongest, but there’s a good argument to be made that our real estate market deserves some glory, too.

Consider: for the better part of a decade house prices have been on the rise — apart from a brief decline in early 2009 — in most major cities across the country. If you zoom in on certain regions like Calgary or, say, Ontario cities like Windsor that have been hit by troubles in the auto industry, the curve gets a bit bumpy, but on a national basis Canadian real estate looks pretty good. Compared to the rest of the world, it’s a bastion of stability.

The U.S. market is a basket case. Since 2006 prices have tumbled more than 30% across the country and even now distressed sales account for more than one-third of total transactions, according to Moody's.

In Europe the numbers are even more dramatic. In Spain, prices almost doubled between 2000 and 2006 but over the past three years they've fallen as much as 25% in some regions. House prices in Ireland have fallen below the level they were at in 2003, according to Bloomberg. Meanwhile, the U.K. market has been treading water since 2010 with some economists calling for a steep decline as the troubled economy begins to bite.

The Canadian housing market "is like the fountain of youth," said one analyst. Rising real estate values, he explained, have helped drive consumer spending and provided fuel for the home building industry, a major source of jobs. According to the CMHC, residential development represents about 20% of the domestic economy.

Importantly, residential mortgages are the biggest single asset on bank balance sheets. When the global meltdown that started in 2008 began to threaten the banks in this country, the federal government stepped in by buying up billions of dollars of mortgages from lenders while the CMHC boosted its securitization program. The move effectively moved the risk of default from the banks to the government, providing banks with incentive to increase mortgage lending. Which they did.

But by boosting the level of securitization the government provided a buffer between the housing market and the banks, allowing them to benefit from rising prices but at the same time protecting them from potential losses in the event of a correction.

The good news is that at least for the moment a correction does not appear to be in the cards.

"The housing market is quite healthy," said Mathieu Laberge, deputy chief economist at the CMHC. "Despite the financial uncertainty in global markets, economic fundamentals remain supportive of the housing market in Canada."

Indeed, according to Capital Economics, things are about to heat up again. Growth in housing investment "appears to have re-accelerated again in the third [quarter]," the research group said in a recent note, adding that overall residential investment could get a boost for at least one or two more quarters and possibly more.

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