

Toronto, Vancouver: Housing bubbles or simply world-class cities

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THE GLOBE AND MAIL

LAST UPDATED: TUESDAY, JUN. 20, 2017 10:19AM EDT

Briefing highlights

- Fitch projects 'soft landing' for housing
- Maybe they're not bubbles: Rosenberg
- CIBC shakes up executive ranks
- Cenovus chief Ferguson to retire
- Britain charges Barclays in Qatar deal
- Home Capital in mortgage sale
- Air Canada's Rovinescu on overbooking

Bubbles or something more?

Fitch Ratings is the latest to project a "soft landing" for bubbly Canadian housing markets notably Toronto. Which raises an interesting question posed by economist David Rosenberg: What if the Toronto and Vancouver markets aren't bubbles at all?

In a global economic outlook released Monday, Fitch joined a number of Canadian analysts in forecasting nothing harsher for a cooling period for Toronto.

Indeed, some economists raise the possibility of Toronto rebounding in time, following the lead of Vancouver, which slumped after government intervention but has since perked up again.

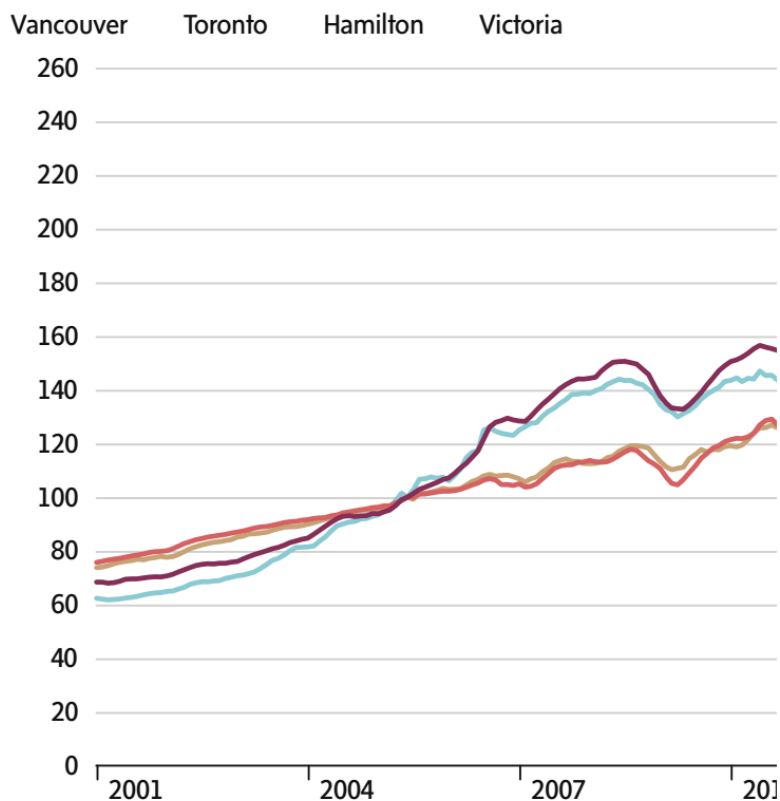
"Transactions in the frothy Toronto housing market have recently slowed following Ontario's measures to cool the market, and a shock to a non-bank mortgage lender," Fitch said without naming Home Capital Group Inc., which is the only lender to have been shocked.

"Our base case is for a soft landing in house prices as we see no immediate risk of a shock to either the labour market or interest rates."

The B-word has been on the lips of many as prices in Toronto and Vancouver rise ever further out of reach.

But Mr. Rosenberg, the chief economist at Gluskin Sheff + Associates, wonders if, rather than being in bubbles, those cities have simply been “re-rated” globally.

Teranet-National Bank house price index, select cities



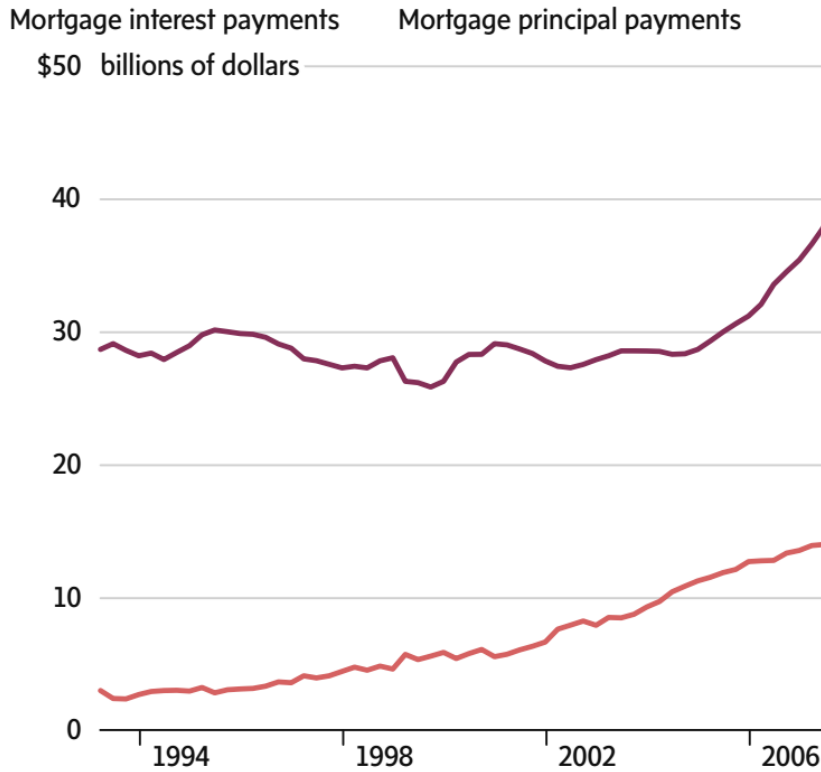
THE GLOBE AND MAIL, SOURCE: TERANET AND NATIONAL BANK OF CANADA

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Certainly, observers around the world are alarmed by Toronto home prices, from the Bank of Canada, the Bank for International Settlements and rating agencies to the International Monetary Fund and Organization for Economic Cooperation and Development.

But much of the concern relates to the run-up in prices and associated mortgage debt, though affordability is certainly a big issue for policy makers.

Household mortgage interest and principal payments, seasonally adjusted



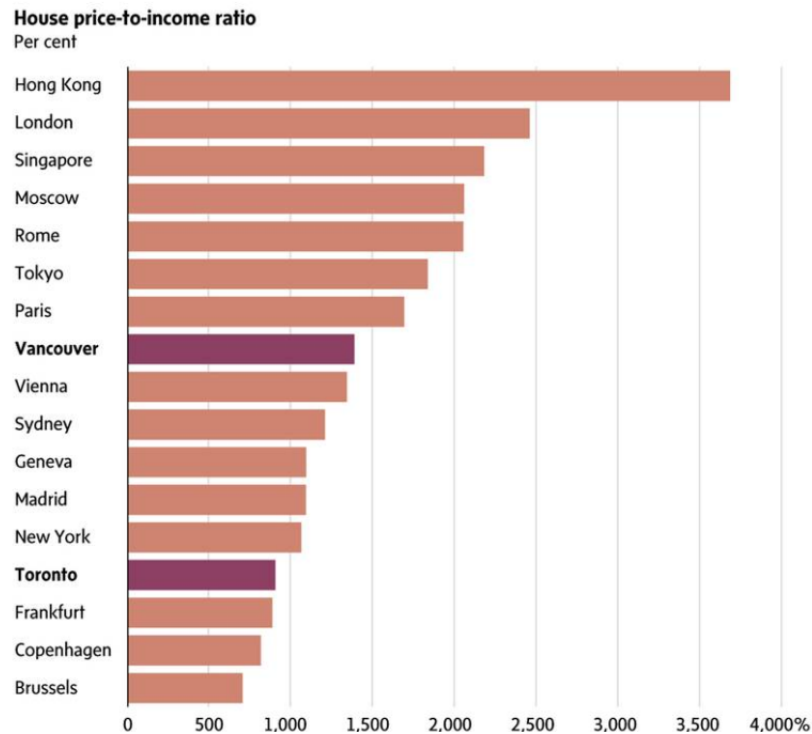
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High prices in and of themselves aren't unique to Toronto and Vancouver, however.

“When you look at these cities' home price-to income ratios, benchmarked against their own individual histories and to the rest of Canada, it looks like a gigantic bubble,” Mr. Rosenberg said in his report.

“But when you look at the two of them in a global context, they don't stand out as bubbles at all,” he added.



“What they have done is to join the big leagues and even on that stage, there many other cities from London to Rome to Tokyo to New York to even Sydney, that still command a premium to the Greater Toronto Area.”

Mr. Rosenberg isn’t saying the increases aren’t extreme, rather that the prices themselves befit “major cosmopolitan areas” in a country deemed desirable and stable.

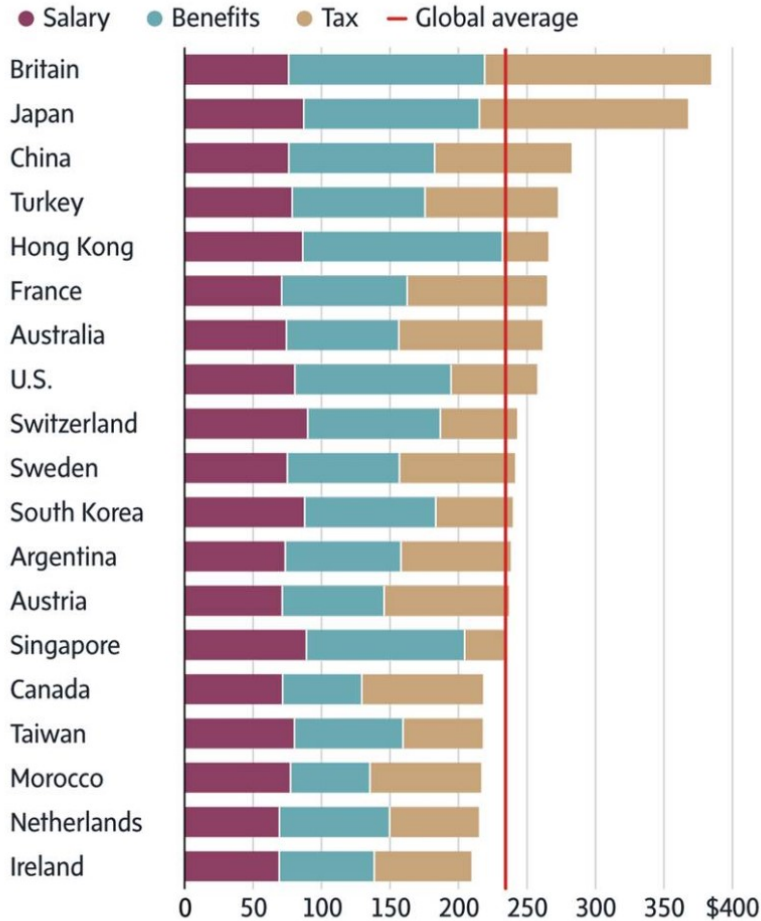
Add to that a cheap currency that means more buying power for certain expats, economists say.

Other studies have agreed Canada is a desirable destination for expat employees, and that elevated home prices aren’t a deterrent for certain people.

A recent report from ECA International, for example, ranked Canada as No. 15 in terms of expense for expat middle managers, below the average, with the company saying at the time that compensation packages are lower because employers don’t need big incentives to attract people here.

Global top 20 expatriate compensation breakdown

Middle manager, thousands of U.S. dollars



THE GLOBE AND MAIL, SOURCE: ECA INTERNATIONAL

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