



Housing market slowing down

Bank report says Saskatchewan to follow Alberta's lead in long-awaited cooling off

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OTTAWA -- Canada's long-running housing boom has ended, with the formerly bubbling markets of Calgary and Edmonton already having gone from hot to not, and with the current hot spots of Saskatoon and Regina to follow, a major Canadian bank says.

Mortgage-market innovation delayed the inevitable but couldn't prevent it, Royal Bank of Canada said in its analysis of major urban real estate markets Thursday.

"After yet another blockbuster year for Canada's housing markets in 2007, the much-anticipated housing market slowdown in Canada has arrived," RBC said.

"The delayed arrival of softer housing markets can be partly attributed to recent mortgage innovation that has seeped into the Canadian market during the last two years," it said, citing higher loan-to-value ratios and longer amortization periods of up to 40 years, which opened the market to a wider range of buyers and prolonged the housing boom.

The mortgage-market innovations, which make housing more affordable in the short term, also heighten the risk of default in the long term, it said.

Markets in the West, which have risen the furthest above their underlying values, are the most at risk of an increase in defaults as a result of recent mortgage innovations, the report's author, RBC economist Amy Goldbloom, said in an interview.

However, there will not be a U.S.-style correction, despite such concerns in markets like Calgary and Edmonton, said the report, released amidst further evidence of the depth of the U.S. housing market meltdown -- a record drop in a government index of housing prices in the first quarter of this year.

"Canada's housing market is on much firmer footing than the U.S. market," it said, citing more conservative mortgage lending practices, healthy household finances, tight labour markets, and a manageable supply of homes on the market.

Still, after six years of 10-per-cent or better house price increases in major markets and four years of annual construction starts of more than 220,000, Canadian

housing markets are now on a clear cooling path with resales last month being down six per cent from a year earlier, price gains from a year earlier slumping to the three-per-cent range, and the number of homes being listed for sale surging by 18 per cent.

"For the year ahead, we're looking at price gains to converge across the country to a much slower pace, with the west cooling off from double digits and central Canada cooling off further to the low single digit range," Goldbloom said. "By year end we expect most markets will be eking out mild price gains."

"The markets that soared well above their underlying economic fundamentals are the very ones with the most downside potential," the report said. "Calgary and Edmonton have moved from chart-toppers to bottom-of-the heap in only a matter of months on a range of key housing market indicators, including house prices and sales."

Saskatchewan has since jumped into the housing market spotlight as its commodity-led economic expansion has attracted an influx of migrants and led to a major housing market boom, it said.

"Regina and Saskatoon continue to clock year-over-year price gains that are several multiples above the pace of their local wage growth," it noted. "This lends evidence that current momentum is unsustainable, with a similar fate to Alberta's likely for both of these cities in a year's time."

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