

New federal mortgage rules may be too late for Metro Vancouver

Frenzy of real estate speculation has spread from Vancouver to far reaches of the Fraser Valley

BY SAM COOPER, THE PROVINCE FEBRUARY 12, 2016

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Blair Mantin, a consumer debt trustee, says property values 'keep going up and it seems to be divorced from reality.'

Photograph by: NICK PROCAYLO , PROVINCE

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Bankruptcy professional Blair Mantin is seeing surreal financial conditions on the margins of Vancouver's housing bubble.

On Monday new federal mortgage rules aimed at cooling Vancouver's market will take effect. The Central Mortgage and Housing Corporation (CMHC) now will require a 10-per-cent down payment on the portion of mortgages it insures over \$500,000.

The changes are needed and could save first-time buyers from costly mistakes, Mantin told The Province Thursday.

But after a speculative frenzy spread from Vancouver to far corners of the Fraser Valley in late 2015, the new lending rules may be too late.

"The biggest thing I'm seeing is values keep going up and it seems to be divorced from reality," Mantin said. "I've never seen these increases, especially outside of Vancouver."

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In the price range that will be impacted by increased down payment requirements, Mantin points to a single-family home in Maple Ridge.

About six months ago the owners filed for bankruptcy when the property was worth \$550,000. With little equity and swamped in all kinds of consumer debt, they couldn't make monthly payments. Mantin helped them put the home on the market, and it just sold for \$730,000.

"So, essentially a bunch of their debts are going to get paid because they got some equity they didn't think they had," Mantin said.

He said he has seen similar price action on Langley townhouses. A client looked at filing bankruptcy on a \$505,000 home last year. It has now been appraised at \$625,000.

Because of debt and credit issues, the client hasn't been able to capitalize on increased equity, though.

Mantin said the market action seen in late 2015 could mark a turn in Lower Mainland real estate, but no one really knows yet.

"Every bubble is so obvious after it happens," he said. "If people are rushing out to buy homes they can't afford, I won't see them for a few years before they realize it."

Canadian bank economists have different views on the impacts of the mortgage rule change. The consensus view is that restricted supply and strong demand from foreign investors and upgrading homeowners who already have significant home equity will keep Metro Vancouver markets buoyant.

Bryan Yu of Central 1 Credit believes Ottawa's mortgage-tightening rules will affect a relatively small group of young borrowers in Vancouver.

"I think sky-high prices in Greater Vancouver have more room to grow with little risk of a significant downturn," Yu said in a recent report.

He added that condo markets "have been soft," but "detached values have surged," and "single-family housing is increasingly a luxury good detached from income drivers."

In a non-consensus view, though, RBC Economics reported the new mortgage rules could sharply reduce demand in Vancouver and Toronto.

"We believe that the change ... will have a non-trivial impact on high-priced markets," wrote RBC senior economist Robert Hogue.

Hogue calculated that for an average Vancouver-area home the minimum down payment a buyer would need to qualify for a mortgage will rise by 47 per cent, from 47,000 to \$69,000.

"The increase in the minimum down payment ... will raise the bar to home ownership quite materially in Vancouver," Hogue wrote.

Some financial experts have also predicted that tougher lending standards could push young buyers into risky financing deals with sub-prime and "shadow-banking" lenders.

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