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JOBS RISE ON BACK OF DRYWALL DUTIES. *FP2*

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CHALLENGE 2017

Real estate braces for 2016 rules fallout

Cooling hot markets has broader effects

GARRY MARR

The head of the Canadian Home Builders' Association doesn't come out and say it, but he seems a little concerned that government might be trying to derail the real estate industry.

"You know, 2016 was a really good year," said Bob Finnigan, president of the Ottawa-based group whose members include 8,500 companies that span the home-building industry from contractors to financiers. "We had a bunch of new challenges brought in and we'll see how we handle those in 2017."

One immediate challenge is dealing with an anti-dumping tariff on drywall from the United States. The industry says that is driving up prices that will have to be passed on to consumers, but hopes the tariff will be overturned following a decision by the Canadian International Trade Tribunal that is expected on Jan. 4.

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'Single-family home is almost a thing of the past'

HOUSING
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A bigger issue is the new mortgage rules that have forced consumers with loans backed by Ottawa to qualify based on a posted five-year closed fixed mortgage rate of 4.64 per cent instead of the actual rate, which is now as low as 2.3 per cent for a five-year fixed rate closed mortgage.

The higher rate forces consumers to prove they could handle a much larger monthly mortgage payment, which is squeezing many first-time buyers out of the market.

The one-size-fits all policy does not sit well with many in the Canadian real estate industry including Finnigan, who wonders how a policy aimed at slowing down the market in Toronto will play in softer markets such as the East Coast.

The Calgary Real Estate Board voiced the same concerns in December with its chief economist saying "stringent conditions for borrowers" were stifling any housing recovery in the oilpatch.

On top of that, there are hints of a larger down payment requirement coming in 2017. Evan Siddall, chief executive of Canada Mortgage and Housing Corp., seemed to muse about the possibility in a speech to the Bank of England in the fall.

"Politicians are tempted to help first-time homebuyers enter the market, but low down payments may be part of the problem adding to affordability pressures and macro-economic vulnerabilities," Siddall said in his speech, which was posted to the Crown corporation's website.

The statement didn't go unnoticed by Finnigan and the industry, which is already grappling with a rule change brought in by the federal Liberals in February that pushes down payments up to 10 per cent, from five per cent, for the portion of a home between $500,000 and $1 million. The government doesn't backstop loans for homes worth more than $1 million.

"I don't know if they are going to increase down payments. You sit in meetings and say, 'This would be a bad thing to do,' and they come out and do it," Finnigan said. "I think you have to start looking at individual markets."

He said the down-payment rule targets more expensive markets such as Toronto where a $500,000 threshold actually has an impact, but the mortgage rule changes were more haphazard.

"The first one was done with a paintbrush and the second one with a roller," he said.

It's not all negative for homebuilders. The new year will begin with a couple of boosts for first-time buyers that could help them enter expensive markets such as Toronto and Vancouver.

In British Columbia, a new grant matches the down payment amount for first-time buyers — up to $37,500, or five per cent of a home's purchase price. And Ontario is doubling the maximum land transfer tax refund for eligible first-time homebuyers to $4,000.

Of course, the government giveth and it taketh away.

Finnigan said it's still unclear what impact the B.C. government's 15-per-cent foreigner property transfer tax will have on overseas buyers. "It's only been a few weeks, we don't know if those people will move to Toronto or Seattle," he said.

The issue in Toronto and the Greater Golden Horseshoe continues to be supply challenges. Proposed provincial legislative changes demanding even more density will only drive single-detached-home prices even higher, Finnigan said.

The Building Industry and Land Development Association said in December the average new detached home price had reached $1,230,961. "The single-family home is almost a thing of the past," he said.

Ultimately, Finnigan said, those types of prices in the new home market and the record prices in the existing home market are probably going to just keep driving the Canadian renovation market to record levels once again in 2017.

Altus Group Ltd. predicts the renovation market will reach $71.4 billion in 2016 — a figure that makes it larger than the new home market.

Finnigan said there is an opportunity for the federal government to introduce measures in the coming budget for tax credits geared toward building more energy-efficient homes.

"Our point is new homes are incredibly energy efficient even compared to a few years ago," he said. "We want to see rebates available for furnaces, windows, doors, extra insulation, lighting and even water. Anything that will conserve and be more sustainable."

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The federal government's one-size-fits all policy does not sit well with many in the Canadian real estate industry facing different market conditions.