

Residential investing 2017: surviving government "help"

FEATURE | Disastrous government policies crash Canada's hottest housing market, hobble B.C.'s biggest industry and may dash dreams of first-time buyers and small investors, analysts say

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The goal of residential real estate investors in 2017 will be to survive a government-orchestrated crash of Metro Vancouver house sales that could also shove many first-time buyers and small investors out of the B.C. market entirely.

After cascading government intervention, Metro Vancouver fell from having the highest housing sales increases in Canada this spring to last place by November, while national sales hit an all-time high.

The first blow came in May when the **BC Liberals** banned assignment sales on existing homes to curb speculation. Detached house sales in Metro Vancouver immediately plunged 16 per cent and, within weeks, the average price of a house on Vancouver's west side had fallen by \$400,000.

In August, the province introduced a 15 per cent tax on foreigners buying Metro Vancouver housing. Housing sales nosedived in the hottest markets.

"We have a completely collapsed activity level," said real estate agent **Brent Eilers of Re/Max Masters Realty** in West Vancouver. "What the market's done since August 1 is dramatic."

West Vancouver sales of single-family houses between August 1

and October 31 were down 72 per cent over the same time period in 2015, from 266 to 75 – the biggest sales drop in the Lower Mainland.

Across Metro Vancouver, total housing sales in October were down 38.8 per cent from the same month a year earlier – compared to a national increase of 2.4 per cent – and Metro detached sales had plunged nearly 55 per cent. In October, only 652 detached houses sold in the entire region, down from a monthly average of 1,610 in the first quarter of this year.

The **City of Vancouver** then stepped in, threatening to ban short-term rentals for investors and introducing a 1 per cent tax on vacant homes by 2017.

In October, the federal government intervened, slapping tough new restrictions on first-time buyers with less than a 20 per cent down payment and, effective November 30, outlawing access to mortgage insurance for residential investors.

"That is worse than the foreign-buyer tax," said **Cameron McNeill**, president of **Mac Marketing Solutions**, one of B.C.'s largest condo marketing firms. "It will affect a lot more people."

McNeill pointed out that pre-sales of new luxury condominiums had remained a bright spot amidst the housing carnage. Sixty per cent of the 2,676 pre-sale condos released in Metro



The Cardero by Bosa in Coal Harbour pre-sold 100 of its 105 luxury condominiums in one month this summer. Across Metro Vancouver, 60 per cent of all pre-sale condo apartments have sold this year, but overall new highrise condo sales are down 22 per cent from 2015. | BOSA

Vancouver this year have sold, and that spikes to 90 per cent for some high-end projects in Vancouver, Burnaby and Richmond, he said.

However, the **Urban Development Institute** reports that overall sales of new highrise condominiums were down 21 per cent in the third quarter of this year compared to 2015, and sales of low-rise condos plunged 44 per cent in the same period.

Developers have started slamming on the brakes. As of November, a total of 113 new condo projects had launched in Metro

Vancouver, down nearly 50 per cent from a year earlier.

McNeill said that the majority of pre-sale condo buyers plan to live in their units, but that the new mortgage insurance rules could keep many investors and first-time condo buyers out of the action in 2017.

Under federal rules, after November 30 those seeking mortgage insurance can only buy a principal residence, the price must be less than \$1 million, buyers must have a credit score of 600 and must qualify at the **Bank of Canada** five-year mortgage rate (4.6 per cent), which is about twice as high as variable rates.

The measures will kick at least 20 per cent of first-time buyers off the real estate ladder, estimates the **BC Real Estate Association**.

The government measures could impact the entire B.C. economy, analysts caution, because residential sales and construction now represent a bigger economic impact than all of B.C.'s resource industries combined.

"When one considers that [the mortgage] default rate is minimal, the housing market is the biggest tax provider and, indeed, B.C.'s only economic engine that is working, one stands amazed at the government intervention," said Vancouver real estate consultant and investor **Ozzie Jurock**.



Cameron McNeill, president of Mac Marketing Solutions: sees upside in Metro's condominium investment market for 2017.

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