



The housing markets in Toronto and Vancouver could resume their previous upward trajectories amid conditions of **tight supply and burgeoning demand**, according to a new report from CIBC World Markets.

The Canadian housing market, in general, is in an important transition period — especially Vancouver and Toronto, economist Benjamin Tal said in the report, which was released Tuesday.

He said activity is likely to stabilize and perhaps soften in the coming quarters as markets adjust to recent and upcoming regulatory changes, including tougher rules for getting a mortgage.

"But when the fog clears it will become evident that the **long-term trajectory of the market will show even tighter conditions**," Tal said. **"The supply issues facing centres such as Toronto and Vancouver will worsen and demand is routinely understated."**

'Short of a significant change in housing policies and preferences, there is nothing in the pipeline to alleviate the pressure,' he wrote.

As prices shot up dramatically in the Vancouver and Toronto areas, governments took steps to try to cool the markets.

Vancouver saw the August 2016 introduction of a 15 per cent tax on purchases by foreign buyers. Tal pointed that following a period of adjustment, a **recovery in the Vancouver market is now underway**.

In **Toronto, the market is already showing a rebound** following a slowdown in the wake of the introduction of the Ontario government's Fair Housing Plan. According to the Toronto Real Estate Board, **7,118 homes were sold in the area in October**, up 12 per cent from September, but still down 27 per cent from the same month last year.

## Demand dynamics

In his report, Tal said the recently introduced tighter lending rules will only slow demand by five to seven per cent this year, owing to a combination of the "creative imagination" of borrowers, some exceptions to the rule and

increased activity among alternative lenders.

At the same time, Tal said that actual demand in the housing market is stronger than official estimates. He pointed out that Canada's annual immigration quota is slated to rise from 250,000 to 300,000, and eventually 450,000. That comes amid a current tight land supply based on rules that don't capture the changes in the market, he said.

Also, official estimates of household formation in the Greater Toronto Area tend to be 10,000 below the mark if adjustments are not made for immigrants and non-permanent residents, who Tal said tend to be younger than the general adult population.

"Actual demand is much stronger than official numbers often used to determine the extent to which we overbuild relative to household formation," Tal said.

Finally, the growing percentage of young adults living at home translates into pent-up demand of roughly 9,000 households, including about 6,500 in the Greater Toronto Area.

"That army of potential buyers can be seen as an insurance against long-lasting significant price decline," said Tal.

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