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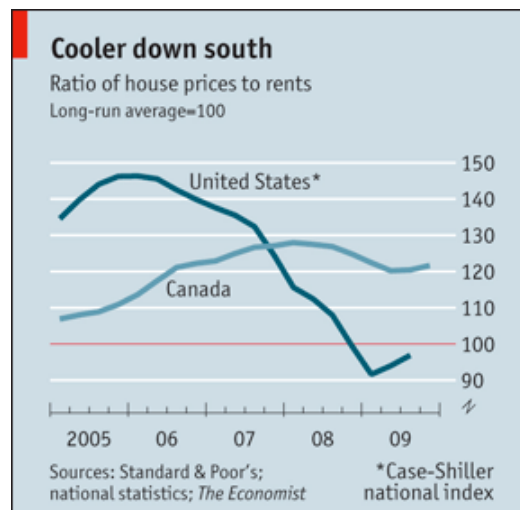
### Cooling the property market

## Slow Canada

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### The government tries to rein in the housing market



CANADA has had an easier time than most during the recent global recession, in part because of a conservative and well-regulated banking system. But dangers still lurk. According to data compiled by the Canadian Real Estate Association, average house prices rose by almost 20% in 2009, propelled by low interest rates and generous government incentives. House prices look overvalued on *The Economist's* price-to-rents ratio, which stands roughly 20% above its long-run average (see chart).

Jim Flaherty, the finance minister, dismisses talk of a bubble. But egged on by a chorus of bankers, economists and commentators, he is still letting some air out of the market. On February 16th, in what he called a preventive move, the finance minister announced rules that make it more expensive to buy an investment property, raise the financial bar that mortgage borrowers must meet, and reduce the amount that existing homeowners can borrow against equity in their home.

A year ago the federal government was busily encouraging more people to enter the housing market, with a tax credit for first-time homebuyers and an increase in the amount they could borrow from their registered retirement-savings plan. It also indirectly encouraged home-equity loans through a tax credit for home renovations.

Now that fears of recession are dissipating, Mr Flaherty says he wants "to discourage the tendency some people have to use a home as an ATM, or buy three or four condos on speculation." When the new rules come into effect

in April, buyers of investment properties will need to stump up a deposit of 20%, not the 5% minimum required for residential properties. Homeowners who refinance their mortgages will be limited to taking out 90% of the equity in their property, down from 95% now.

Raising interest rates would have been another, much blunter solution to the problem of an overheating housing market. But the Bank of Canada is sticking to its promise to keep its overnight rate at a record low of 0.25% until July, inflation permitting, arguing that an increase “would be dousing the entire Canadian economy with cold water”.

That makes sense. Economic recovery is not yet entrenched. The new rules are more targeted, and can be tightened further if need be. And they are designed to discourage households from increasing their already-record debts rather than to puncture a housing bubble. In particular Mr Flaherty worries that homeowners are taking on more debt than they will be able to handle when interest rates eventually rise. The measures will also require applicants for short-term mortgages at today’s low rates to meet the higher income standards needed for a five-year, fixed-rate loan.

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