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Some See a Real Estate Bubble Forming in Canada

By IAN AUSTEN

OTTAWA — Marie-Yvonne Paint, a real estate agent in Montreal, has the kind of problem most of her counterparts in the United States can only dream about.

“We have a shortage of inventory right now,” said Ms. Paint, who focuses on the exclusive and expensive municipality of Westmount. “It’s very annoying. We have buyers ready to buy and not much to show.”

Ms. Paint’s experience is not an isolated example. Like most of the world, Canada’s real estate market slumped during the recession. But now, instead of worrying about the recovery of the real estate market, some Canadians are concerned about the prospect of a price bubble. The Canadian Real Estate Association reported that the average price of existing homes rose 19.6 percent in January compared with those in the month a year earlier, the latest in a string of substantial gains dating back through last autumn. By contrast, the average price of existing homes rose 2.6 percent in the United States in the same period, according to the National Association of Realtors.

Such drastic percentage gains are not just a reflection of the market’s earlier depths. In some Canadian cities, particularly Toronto and Vancouver, prices appear to be heading toward record levels.

“It’s no surprise the housing market responded to low interest rates,” said Craig Alexander, the deputy chief economist of the Toronto-Dominion Bank. “The real question is what’s going to happen in the next year. It can’t continue at the current pace, otherwise a bubble will form.”

Canadian home buyers, of course, are not unique in having access to low-interest mortgages. But Mr. Alexander and others attribute the Canadian market’s revival to a series of measures that ensured that the recession in Canada did not turn into a real estate disaster.

Perhaps chief among them is the country’s retail banking system, which is effectively an oligopoly dominated by five national banks, including Toronto-Dominion.

Most of the time, that arrangement is less than popular among Canadians, who think that a lack of competition leads to, among other things, low interest rates on savings and high service fees.

Public resentment has repeatedly caused politicians to block mergers between the banks. But in the lead-up to the credit crisis, the closed-shop nature of banking in Canada proved to be the government's, and the economy's, best friend.

Mindful of government oversight, Canadian banks by and large avoided the structured debt products that imperiled many of their American counterparts. They also maintained comparatively tight controls on mortgage lending to consumers. When zero percent down payments on mortgages were widely available in the United States, Canadians were typically required to put down at least 10 percent. American-style amortization periods stretching beyond 25 years were also relatively unknown in Canada.

"In Canada, standards got nowhere near as low," said Timothy D. Hockey, the chief executive of TD Canada Trust, Toronto-Dominion's Canadian retail banking operation. "When the crisis came upon us, the standards didn't have to change."

One result of that, said Phil Soper, the president and chief executive of Brookfield Real Estate Services of Toronto, is that the slump in housing starts and existing home prices was delayed by about a year in Canada until late 2008. Then, when interest among buyers began to return last year, Canada's still-healthy banks were able to provide mortgages, and housing prices were not depressed by a glut of defaulted properties in forced sales.

"One of the things we see in American businesses that we don't see in our Canadian businesses is a willingness to really push the limits," said Mr. Soper, whose operations include Royal LePage, one of Canada's leading real estate brokers. "When bubbles burst, sometimes the turtle wins."

While demand from buyers has returned, most real estate analysts agree that sellers have been slower to move. There are a variety of theories for that reluctance. Winter is not seen as a optimal season for selling homes in most parts of the country, given Canada's climate. Some economists speculate that many sellers are holding out for more definitive signs of a market comeback. And others think that many sellers have delayed putting their homes on the market because they are undertaking repairs prompted by recently expired home renovation tax credits that were part of Canada's economic recovery plan.

But whatever the cause, the expectation — or perhaps the hope — is that the arrival of spring and the upward trend in prices will inspire increasing numbers of people to list their homes. The increase in supply, in turn, should prevent prices from escalating to bubble levels. January's statistics, both for resales and housing starts, suggest that pattern may be developing.

But Mr. Soper is among those who caution against reading too much into the current market buoyancy about long-term price trends.

“Canadians in the financial and real estate sectors feel a little bit smarter than they should about the strength of the economy and industry over the last few years,” he said. “Certainly the underlying economy isn’t strong enough to support the prices we’ve seen over the last few weeks.”