

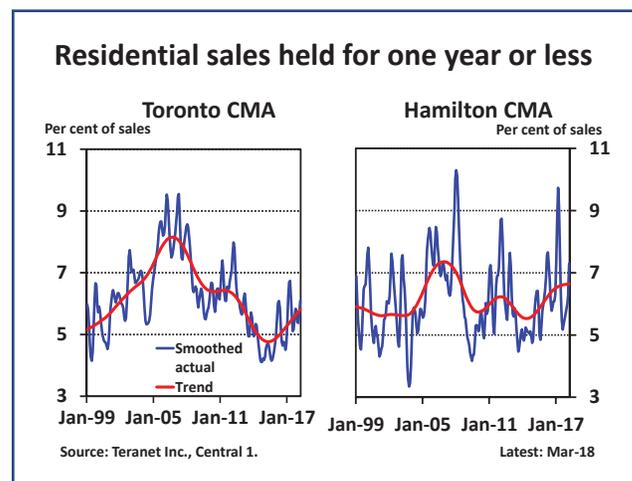
## A look at housing speculation in Toronto and Hamilton

Speculation is cited as a factor behind home price appreciation during this cycle in the Toronto and Hamilton metropolitan areas. Few studies quantifying speculation activity are available, resulting in much speculation about speculation. Indirect inferences using record high prices, rapid price appreciation, and a break from ‘fundamentals’ are quoted as evidence of speculation driving price increases. In this report, new information on housing speculation is presented with the main conclusion that it is not widespread and likely only a minor contributor to price increases this cycle. What is speculation and what is the difference between speculation and investment? There is no common definition, but speculation is generally considered as the purchase of an asset to be sold at a higher price to generate an acceptable rate of return. A speculator’s motive is price appreciation, or capital gain, usually in a short time horizon. An investment is the purchase of an asset for an expected rate of return, which can include price appreciation, but mainly relates to yield. An investor’s motive is obtaining yield and capital gain over a longer time horizon.

The purchase of housing is more than a financial investment for most buyers because it is a principal residence providing essential shelter needs. Most owner households engage in a housing market transaction when their circumstances change, such as a geographic job relocation or due to household size or composition changes. The high cost of housing transactions deters frequent turnover. Most homeowners hold onto their housing investment for a long period.

A housing speculator is a buyer whose only intent is to resell on the expectation of higher prices, and a capital gain, without any intention to use as a principal residence, investor owned rental, or second residence. Most consider property flipping unproductive speculation compared to productive speculation in an investor owned rental property, or a builder-developer buying a property for future redevelopment.

The dataset used is from the Teranet Land Titles System and Ontario Land Registry. Data were obtained



on residential sales by property type within the Toronto and Hamilton CMAs for the Jan. 1999 to Mar. 2018 period and were grouped into holding periods, i.e., the duration between sales of the same property.

The one year holding period, or flipping measure, is the main focus for housing speculation in this report. This is an arbitrary choice with some housing speculators holding onto their purchase for longer, though a speculator usually tries to limit holding costs. Another issue with this measure is there are legitimate reasons, such as a change in employment or household circumstances, for a principal residence to be resold in less than one year. Another shortcoming, and probably the most limiting, is the data does not capture presale flipping, or sales assignments, on new units prior to construction completion. Nonetheless, this measure gives valuable insight into housing speculation trends. The percentage of sales held for one year or less has risen in the past two years but remains low relative to its history and below the previous cycle high. In the Toronto CMA, this proportion came in at 5.7 per cent so far in 2018 and for all of 2017 and up from the recent low of 4.4 per cent in 2015. In the graph, a rising monthly trend is evident since mid-2015. Hamilton CMA’s readings are similar in trend to Toronto but at a slightly higher level – 6.4 per cent in 2018 and 6.7 per cent in 2017.

Table 1 provides information by property type. The numbers shift yearly, but most recently, condo apartments and other residential, mainly row and semi-detached, have higher readings than single-detached properties in the Toronto CMA. The situation

**Table 1. Residential sales held for one year or less by property type, per cent of sales, Toronto CMA**

Property type	2013	2014	2015	2016	2017	2018
All residential	5.5	4.5	4.4	5	5.7	5.7
Single-detached	6.6	5.1	5.2	5.7	5.1	3.6
Condo apartments	4.5	4	3.6	4.6	5.9	6.5
Other residential	5.0	4.4	4.7	4.9	7.2	8.5
<b>Hamilton CMA</b>						
All residential	5.1	5	5.7	6.4	6.7	6.4
Single-detached	5.4	5.4	5.9	7.0	7.3	8.3
Condo apartments	4.3	4.1	4.6	4.6	5.7	4.1
Other residential	7.2	4.6	7.0	7.5	6.8	8.5

Source: Teranet Inc., Central 1. Note: 2018 to March.

is different in the Hamilton CMA, with single-detached and other residential showing higher readings than condo apartments.

Table 2 provides information for selected municipalities within the Toronto and Hamilton CMAs. Brampton has higher readings than other areas in the Toronto CMA and Toronto City is among the lowest. In the Hamilton CMA, Hamilton City has the highest readings and surpasses Toronto City.

Shorter time periods, perhaps more relevant for property flipping, do not reveal a significant difference in trend from the one-year measure. Table 3 provides information by holding period from three months or less to more than 10 years. Nearly one-half of residential sales have a holding period of more than 10 years. This data indicates no significant speculation activity in the Toronto and Hamilton CMAs during this

cycle, notwithstanding data deficiencies. However, speculative activity likely increased during the past two years or so when price increases were rising rapidly – a normal market reaction. However, market conditions softened following the introduction of Ontario’s Fair Housing Plan and again with the implementation of another stress test on mortgage borrowers effective Jan.1, 2018. Weak pricing is not conducive to property flippers and a declining speculation trend is expected. Another factor cooling speculation is Canada Revenue Agency’s stepped-up enforcement on property capital tax gains.

If property speculation was not a significant driver of higher prices, then other factors must be at work causing the market supply-demand imbalance. On the sales side, we can point to low financing costs, job, income and population growth, household changes, rental investors, and pent-up homeownership demand

**Table 2. Residential sales held for one year or less by municipality, per cent of sales, Toronto CMA**

Municipality	2013	2014	2015	2016	2017	2018
Toronto, City	4.0	4.0	3.4	4.4	5.2	5.1
Mississauga, City	3.7	3.5	4.1	5.2	5.1	5.7
Brampton, City	9.2	7.8	8.4	6.2	7.7	7.2
Markham, City	5.0	4.1	5.1	5.0	4.6	2.8
Vaughan, City	5.2	3.6	5.0	4.4	5.5	7.1
Richmond Hill, Town	5.8	4.0	4.7	5.7	7.0	5.3
Oakville, Town	4.9	3.6	3.9	4.3	6.4	7.5
<b>Hamilton CMA</b>						
Hamilton, City	5.4	5.0	6.3	7.2	7.6	7.8
Burlington, City	4.6	4.0	4.0	4.6	4.2	4.5
Grimsby, Town	3.7	9.3	4.3	3.7	5.1	3.1

Source: Teranet Inc., Central 1. Note: 2018 to March.

**Table 3. Residential sales held by duration period, per cent of sales, Toronto CMA**

Duration period	2013	2014	2015	2016	2017	2018
Three months or less	1.0	0.7	0.8	0.7	1.0	0.8
Six months or less	2.3	1.8	1.9	2.1	2.4	2.1
One year or less	5.5	4.5	4.4	5.0	5.7	5.7
Two years or less	12.3	10.9	11.4	13.0	14.0	15.5
Five years or less	31.7	31.4	31.6	33.7	33.3	35.4
10 years or less	53.0	51.5	51.4	53.4	51.1	52.8
More than 10 years	47.0	48.5	48.6	46.6	48.9	47.2

**Hamilton CMA**

Three months or less	1.0	0.7	0.9	0.8	0.8	0.7
Six months or less	2.3	2.0	2.4	2.7	2.6	2.4
One year or less	5.1	5.0	5.7	6.4	6.7	6.4
Two years or less	11.9	11.4	12.4	14.2	14.7	14.0
Five years or less	32.3	32.6	33.9	35.4	35.3	32.2
10 years or less	54.6	54.0	55.7	56.4	54.5	48.9
More than 10 years	45.4	46.0	44.2	43.6	45.5	51.1

Source: Teranet Inc., Central 1. Note: 2018 to March.

spurring activity. On the supply side, declining active listings on the market, a muted listings response from the existing housing stock, and the time lag in new housing construction unable to fulfill sales demand. More recently, though, sales declined in the past year on those policy measures resulting in price moderation and a modest decline in single-detached prices. At this juncture, new policy measures to address housing speculation will have little market impact.

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