

## Highlights

- Speculation wanes according to holding period measure
- Inconsistent statistical relationship with prices
- Fundamental factors more important for prices

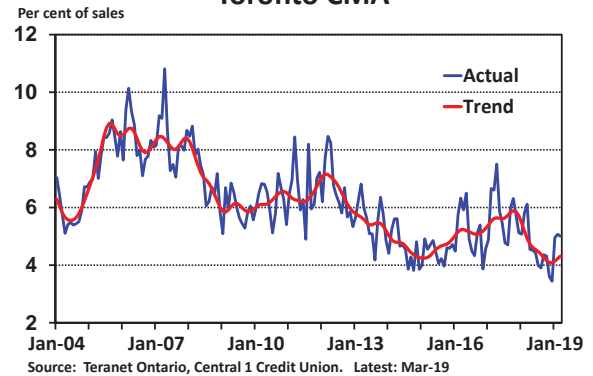
Last year we presented new information on housing speculation in the Toronto and Hamilton Census Metropolitan Areas (CMA) based on actual transactions data compiled by Teranet Ontario. The data allowed for calculation of the duration between sales of the same property to generate a property turnover or flipping measure. Flipping property in a short holding period is a sign of speculation and usually occurs when housing prices are rising rapidly with flipping leading to 'price bubbles' under certain conditions.

Flipping activity in the Toronto and Hamilton CMAs has waned since our last report. Toronto's one-year holding period trend measure declined to 4.3 per cent in March 2019 from 4.9 per cent one year earlier and from this cycle's high of 5.9 per cent. Hamilton's comparable indicator slid to 5.2 per cent in March 2019 from 5.8 per cent last March and from the cycle high of 7.7 per cent. Actual monthly data are noisy and require trend adjustment to better ascertain trends as seen in the accompanying graphs.

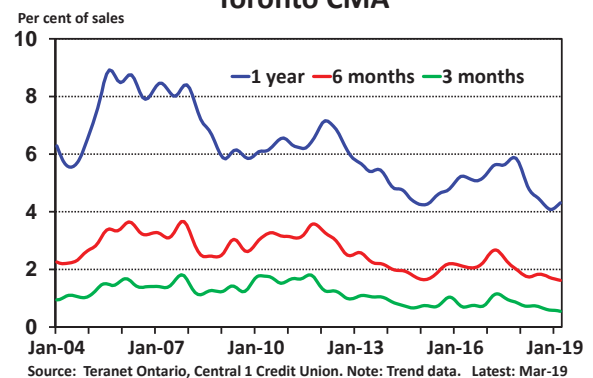
The one-year holding period measure is the main indicator used in this report. Some housing speculators hold onto their purchase longer, though a speculator usually tries to limit holding costs. Other holding periods - three months, six months, and two years - were examined and found to have similar trends as the one-year measure. A property flipper's motive is quick capital gains and not long-term investment.

The one-year holding period for single-family, row/townhouse, apartment, and semis/double properties declined across all types in both the Toronto and Hamilton CMAs during the past year. In Toronto, detached properties have consistently higher one-year holding measures than row and apartment units since 2004 with condo apartment units having the lowest. For Hamilton, there was less dispersion across

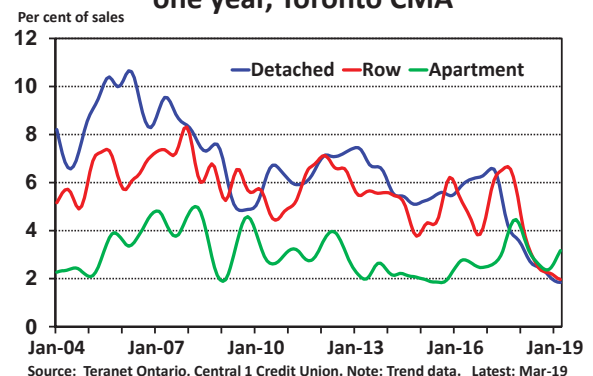
### Residential sales held for less than one year, Toronto CMA



### Residential sales holding periods, Toronto CMA



### Residential sales by type held for less than one year, Toronto CMA



property types, though on average, detached units had a higher one-year turnover rate.

Housing prices were increasing at around a 10 per cent annual rate at the beginning of 2016 and shot up to 25 per cent and 35 per cent by mid-2017. Short-term

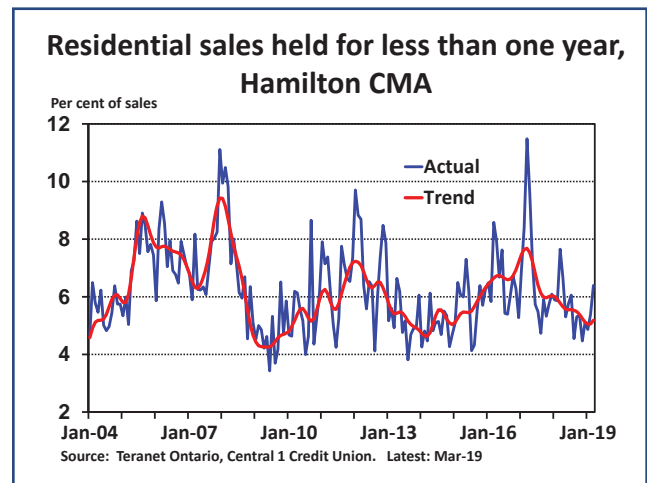
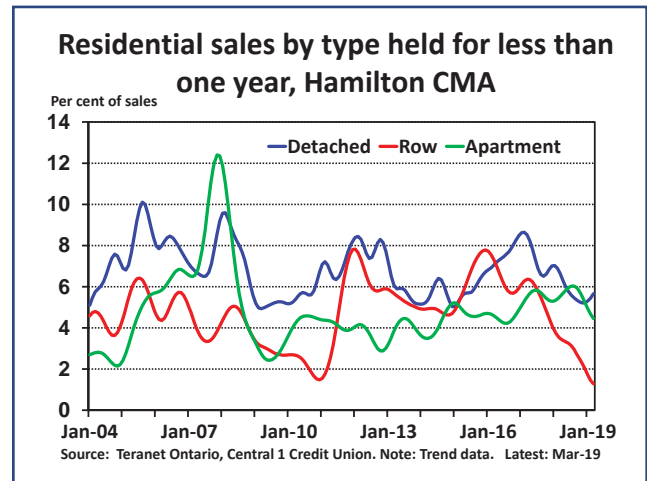
holding period measures also increased during this period reaching highs in the second half of 2017, and on the surface, coincided with the sharp price run-up. Statistical analysis revealed a significant relationship between some short-term holding period measures and the pace of price increases during 2016 and 2017.

However, the statistical relationship was weak, or nonexistent, in most holding period measures between 2010 and 2015 when holding period values were as high, and in some cases higher, than in the 2016 to 2017 period. Similarly, during the 2004 to 2007 cycle phase, the relationship between the short-term holding period measures and price changes was nonexistent. The direction of change in the holding period measure has more significance than its absolute value. These statistical findings held for both Toronto and Hamilton and across property types.

That speculation activity increased during 2016 and 2017 when price increases were rising rapidly is an expected market reaction. A declining speculation trend played out when market conditions softened following the introduction of Ontario's Fair Housing Plan, the implementation of another stress test on mortgage borrowers effective January 1, 2018, and deteriorating purchasing affordability from higher prices and mortgage rates. Another factor cooling speculation at that time could be Canada Revenue Agency's stepped-up enforcement on property capital gains tax evasion.

It is not clear that speculation alone caused the rapid price escalation during 2016 and 2017 and that less speculation caused the cooling in prices since then, because correlation is not causation and statistically significant causation between short-term holding periods and price changes was inconsistent. Statistics aside, there are non-speculative reasons, such as a change in employment or in household circumstances, for a property to be resold in less than one year and hence overstate the flipping speculation measure. Another shortcoming with this indicator, and probably the most limiting, is that the data does not capture flipping of sales assignments on new units prior to construction completion with speculation underestimated as a result.

Toronto's and Hamilton's rapid home price escalation in 2016 to mid-2017 occurred when mortgage rates fell to record lows following the Bank of Canada's rate cuts to revive the economy from the 2014-15 oil price collapse. In addition, the Toronto and Hamilton economies were performing well and attracting more migrants at that



time. While sales demand was increasing, the flow of listings supply coming onto the market was insufficient causing a declining supply of units (active listings) on the market. This market imbalance steadily intensified resulting in rapid price increases. Price escalation was also occurring in other markets under similar conditions, notably in Vancouver, Victoria, Barrie, Niagara, and Ottawa.

In summary, there is some evidence that speculation contributed to the most recent bout of rapid home price escalation in Toronto and Hamilton, but the evidence presented by this dataset is inconsistent. Data issues and incomplete measurement of speculation contribute to this conclusion. Fundamental market factors driving housing sales and supply were likely the main reason behind the price run-up and contributed to the recent price softness along with housing policy and mortgage finance regulatory changes.

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