



**CANADA
HOUSE PRICE ETFS:
A SOLUTION TO HIGH
HOUSE PRICES**

NATHAN HUME
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House Price ETF: Introduction

- Canadian houses **are** financial assets
 - Key federal policies favour residential RE
 - CMHC insurance + Principal Residence Exemption + OSFI ratios
 - Extensive leverage: total mortgage debt + HELOC > \$2 trillion (CMHC, Q4 2023)
 - ~25% of homes in BC and Ontario are owned by investors
- Provincial and federal policies have stimulated both supply and demand
 - Annual value of residential real estate transactions in Canada: >\$250B
 - CREA (2023): 443,511 house sales at average price of \$657,145
- Residential RE bundles different goods:
 - shelter
 - a real asset (cash flow and control)
 - exposure to house prices (and extensive government support)
- House price ETFs would **disaggregate** those goods, **create** a distinct market for house prices, and **reduce** speculative demand for physical houses by introducing a competitive substitute investment product



House Price ETF: Retail Exposure to House Prices

- **Basic concept:** two exchange traded funds that track the average Canadian house price (the Reference Price)
 - Canada House Price ETF: value rises when home prices rise
 - Inverse Canada House Price ETF: value rises when home prices fall
- Structured and sold on the public securities market like other ETFs based on stocks, bonds, currencies, or commodities
- Retail investments that are priced and traded accordingly
- Compatible with existing tools (e.g. FHSA, TFSA) and policies (e.g. Housing Accelerator Fund) to level the playing field between incumbent owners, renters, and new market entrants



House Price ETF: Everyone Wins

- **Young families and new Canadians** could save for a down payment with an investment that tracks house prices
- **Renters** could create a portfolio that mimics the benefits of homeownership by renting a home and holding units of the Canada House Price ETF in a tax-free account
- **Investors** could speculate directly on house prices without buying the homes that families need for their own financial security
- **Homeowners** could hedge against a potential drop in house prices
- **Financial institutions** could collect fees and reduce regulatory capital
- **Politicians** could use the resulting policy flexibility and take more ambitious and effective action on housing and productivity



House Price ETF: The Time Has Come



- Before the unprecedented increase in house prices, there was limited demand for such a product
 - Even some middle-class Canadians purchased multiple properties
 - Banks had already offloaded most of their residential RE risk
 - Government programs (CMHC, OSFI) steadily increased supply of mortgage credit
 - REITs provide exposure to cash flows from real estate, but recent residential price increases are divorced from cash flows (and REITs have lagged houses)
- ETFs typically provide exposure to assets that retail investors cannot easily acquire: gold bullion, barrels of oil, entire stock indices
 - In recent years, homeownership has become increasingly unattainable
 - 17-38 years to save for a down payment in Vancouver
 - Especially unrealistic for young families and future generations

House Price ETF: Familiar, Relevant and Innovative

- Canadians can invest today in a wide range of exotic ETFs
 - HUV: S&P VIX Short-Term Futures Index (change in volatility)
 - TCBN: TD Global Carbon Credit Index (price of carbon credits)
 - HUG: Horizons Gold ETF (synthetic gold exposure)
 - BITI: BetaPro Inverse Bitcoin
 - ETHX-B: CI Galaxy Ethereum
 - HND: BetaPro Natural Gas Inverse Leveraged Daily Bear
 - INCM: Accelerate Diversified Credit Income (private credit)
 - HRED: BetaPro Equal Weight Canadian REIT 2x Daily Bear
- Canada House Price ETFs would be much more relevant to everyday life and actual household financial concerns



Utilize the Existing ETF Ecosystem



Familiar Products

1,300 + ETFs: equities, bonds, commodities, etc.
Trusts hold securities, physical assets, and/or financial instruments (e.g. swaps and futures)

Standard Participants

Trustees, Asset Managers, Custodians, Auditors, etc.
Banks (TD, BMO, RBC)
Specialists (Horizons, Vanguard, Purpose)
Services (BNY Mellon, CIBC Mellon, E&Y)

Experienced Regulators

OSFI, OSC, TSX, Montréal Exchange
Familiar issues, rules, regs, agreements

House prices are compatible with this institutional ecosystem **right now**

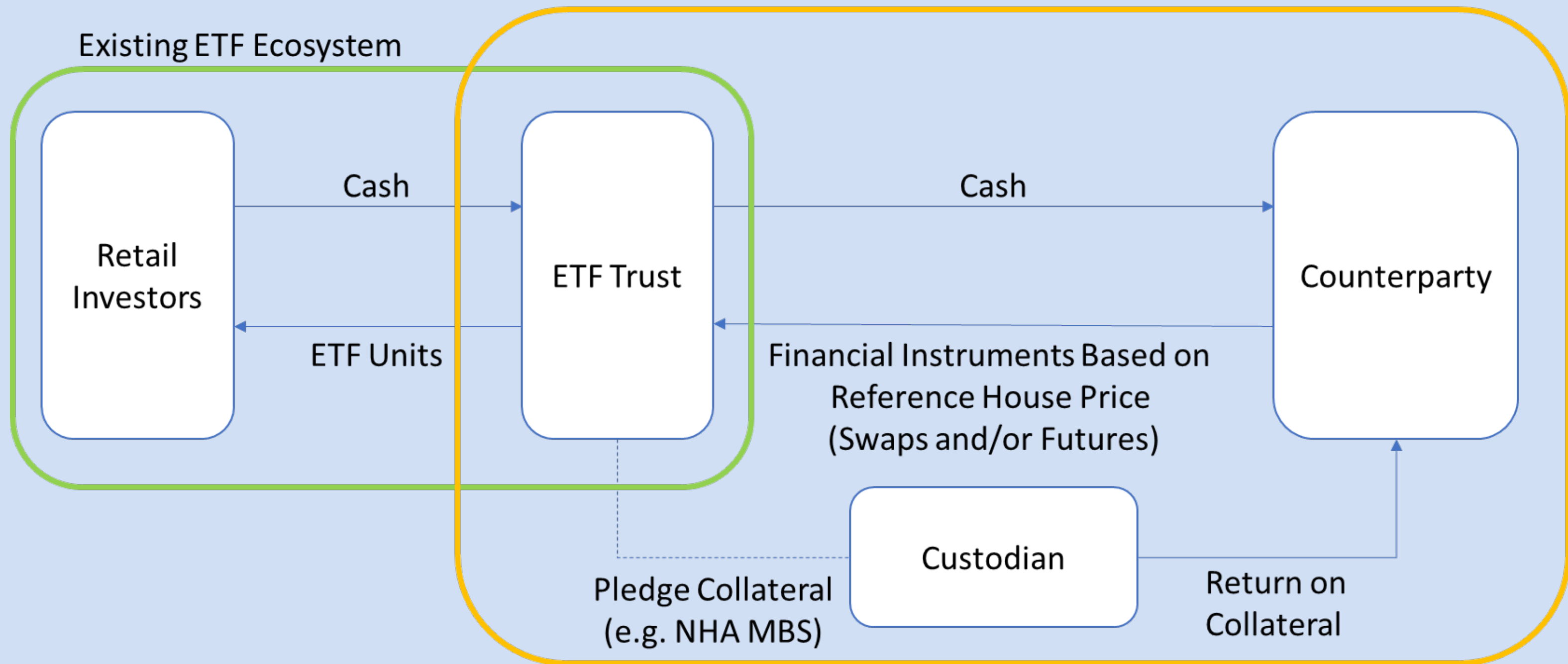
We Need a House Price Market in Canada

- Every ETF is built on top of other markets: equities, bonds, currencies
 - ETF sponsors (trusts) need to generate returns by making investments
 - Counterparties need to be able to trade the resulting risks
- Mature markets and synthetic ETFs use a combination of instruments
 - Swap agreements: negotiated agreements that use standardized documents to trade payments on notional amounts
 - Futures contracts: standardized contracts traded on an exchange to provide exposure to and protection against price fluctuations until a future date
- Those instruments need a reference price for the underlying asset
 - Reference prices must be certain, reliable, transparent, and acceptable to market participants including exchanges and regulators
 - House price indices (e.g. Teranet HPI)
- Canada has a huge market for housing
- Canada needs a market for house prices: House Price ETFs



House Price ETF: Simplified Diagram

House Price Market



*Simplified diagram for discussion purposes

House Price ETF: The Time Has Come

ETFs deploy investor cash in established underlying markets to generate returns

	Physical ETF	Synthetic ETFs	
Underlying Investment	Physical assets	Futures Contracts <ul style="list-style-type: none"> • Standardized contracts to buy/sell assets at an agreed price on set date • Traded on exchanges 	Swap Agreements <ul style="list-style-type: none"> • Negotiated contracts to exchange returns on a notional amount of reference asset(s) • Negotiated with counterparties
Examples	Gold, silver, platinum	Oil, natural gas, \$ Stock indices, bond indices	Currencies, interest rates, credit
Price Mechanism	Spot market: actual Sales	Reference price: transparent, credible, reliable	Reference price: transparent, credible, reliable

House Price ETFs would be synthetic: returns from derivatives, not houses

1. Houses for families, not speculators: ETFs will siphon speculative demand away from actual homes
2. House Price ETFs are not REITs: target house prices, not cash flows and property management business

House Price Markets Do Exist...

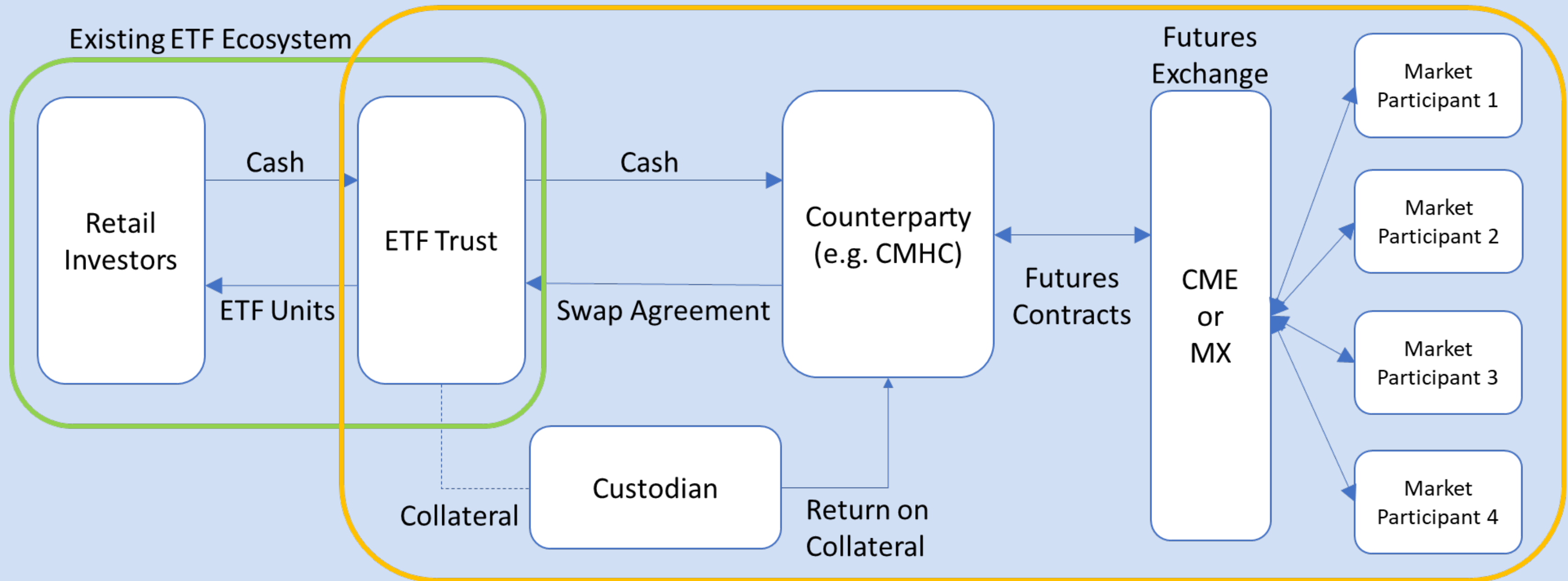
... in the USA

	United States	Canada
Reference Price	S&P CoreLogic Case-Shiller Home Price Indices <ul style="list-style-type: none"> • 20 metropolitan areas • Various composites (10, 20, national) 	Teranet–National Bank House Price Index <ul style="list-style-type: none"> • 32 metropolitan areas • One composite (C11)
Futures Contracts	11 contracts (Composite + 10 metro areas) traded on Chicago Mercantile Exchange	No <ul style="list-style-type: none"> • Very few products on MX and ICE NGX
Swap Agreements	Yes <ul style="list-style-type: none"> • OTC derivative contracts are private, but RE derivatives are well-known 	Unknown <ul style="list-style-type: none"> • Unlikely, no industry information available
House Price ETFs	MacroShares (Robert Shiller) issued two ETFs linked to US house prices in 2009: liquidated <ul style="list-style-type: none"> • 3x leverage; unusual paired structure; GFC 	Coming Soon!

- Wealthy individuals and large financial institutions can already play this market in the US
- OSFI already uses [Teranet HPI](#) to calculate capital requirement triggers for mortgage insurers

House Price ETF: More Mature Market

House Price Market



*Less simplified diagram for discussion purposes

What the Federal Government can do

- There are many potential paths to market depending on government and financial institution preferences
 - Familiar issues, modular solutions, established templates, useful precedent
 - Documents could be drafted in two weeks
- Immediate actions could include reviewing concept, defining concerns and opportunities, canvassing potential market participants on technical issues
- Minimum Viable Product: another way for government to support concept and catalyze market
 - Short Term: CMHC enters or guarantees swap agreement with ETF Trust
 - Government support attracts market interest, which generates liquidity
 - Long Term: CMHC supports development of RE futures contract
 - Either on CME (established contract, new price) or MX (new market)




House Price ETF: Conclusion and Next Steps

- Canada House Price ETFs present an opportunity to separate the Canadian housing market into two distinct markets
 - A market for houses
 - A market for house prices
- As the retail component of the house price market, these ETFs would provide valuable returns and risk management mechanisms to aspiring homeowners, established owners, and investors
- House Price ETFs would create more space for meaningful policy reform
- Next Steps:
 - Consider [supporting background documents](#)
 - Survey significant challenges/obstacles
 - Identify potential institutional participants
 - Define and resolve technical questions (e.g. necessary features of Reference Price)



Contact Information

Nathan Hume

 604-786-5256

 law@nathanhume.com

 nhume@ratcliff.com

