Expect homes to remain affordable

Bill Johnston | TREB PRESIDENT'S COLUMN AS IT APPEARS IN THE TORONTO SUN | February 25, 2011

I have written recently that the Toronto Real Estate Board (TREB) expects to see the average existing home price in the GTA grow by approximately three to five per cent per year over the next two years.

Much has been made of some recent analyses forecasting double-digit declines in Canadian home prices. Some analysts have given a specific time frame whereas others have simply argued that the Canadian homes are currently overvalued and their values should decline over time.

Geography is another issue. Talking about the Canadian housing market as a whole is problematic. Market conditions are not uniform across all Canadian provinces and cities. The drivers of economic growth in the Greater Toronto Area (GTA) are different from the drivers of growth in the Vancouver area which are different again compared to St. John's. The same is true for the sources of population growth. These regional differences confirm that it is difficult to paint resale housing with one brush country-wide.

I talked to Jason Mercer, TREB's Senior Manager of Market Analysis. He explained that many of the analyses pointing toward double-digit price declines in Canada have relied on the calculation of Canadian home price to income ratios.

"It has been argued that because this ratio is currently high from a historic perspective, the average resale home price in Canada must fall in order for the ratio to move back in line with the long-term average.

Unfortunately, this argument doesn't account for borrowing costs, which is problematic given that most home buyers purchase a home using a mortgage," said Mercer.

"A better way of determining if the current average home price level is justified is to consider what percentage of average household income is going toward mortgage payments associated with the purchase of an average priced home.

The current percentage is lower than the long term averages for Canada and the GTA. This means that there is still room for moderate price growth, even after taking into account the consensus view that mortgage rates will increase in 2011 and 2012," continued Mercer.

To me, as a practicing REALTOR® and President of TREB, Mr. Mercer's comments make sense. One of the most common topics of conversation amongst REALTORS® and home buyers is where mortgage rates are headed.

People are concerned about what their mortgage payments will be relative to their income and other expenses. What I do not hear people talking about is what their home price to income ratio is going to be after they purchase a home.

The bottom line is that when most people think about housing affordability, they are thinking about how much of their income is going toward their mortgage payments. Affordability has been an issue in the past. In the early 1990s, mortgage rates were substantially higher than today's levels, the unemployment rate had spiked and income growth had stalled. The result was falling prices.

While we will likely see higher borrowing costs this year and next, income growth is also expected to accelerate. This suggests that home ownership will remain affordable and moderate price growth will be justified over the next two years.

Bill Johnston is President of the Toronto Real Estate Board, a professional association that represents 30,000 REALTORS® in the Greater Toronto Area.

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