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Think house prices are unaffordable now? It gets worse

By Rob Carrick

Home ownership will be fantasy for Canadians with an average income, as wage hikes are unlikely to keep pace with housing market

How Canada's housing market will look in 2024: If you're wealthy, it's healthy.

If house prices rise from current levels by an average annual rate of 2.5 per cent over the next 10 years, the average Canadian home will cost half a million dollars. By my rough estimate, that would be a realistic purchase only for families with pretax income of at least $125,000 or so. Just for context, the most recent Statistics Canada numbers put the median total family income at $72,240 in 2011.

The "housing market is fine" people talk about immigration, low inventories and the fact they're not building any more houses in some urban downtowns. But questions about basic affordability undermine all of these supports for the market.

Current affordability levels are a problem documented in a previous column that you can read here[1]. Another way to look at this issue is to imagine what might happen if prices keep rising at recent levels.

House prices have risen in the area of 5.5 per cent annually on average over the past 17 years, almost exactly what the Canadian Real Estate Association has estimated for 2013. Looking ahead to the end of this year, CREA sees a gain of 2.5 per cent on a Canada-wide basis. Let's apply that number on an average annual basis to sketch out what the housing market might look like 10 years from now across Canada and in five major markets from coast to coast.

The average price across Canada would rise to $500,622, which means the minimum 5-per-cent down payment would cost you $25,031. Now, for your mortgage costs. If you were to buy that average Canadian house in 10 years' time, your mortgage rate would almost certainly be somewhat higher than it is today. Let's conservatively project a discounted five-year fixed rate of 4.5 per cent, which compares to 3.5 per cent today, and would produce monthly payments of $2,709 on the average-priced Canadian house.

To qualify for a mortgage, the total of your mortgage, property tax and heating costs must be no more than 32 per cent of your gross household income. If we estimate costs of $4,000 for property taxes and $1,800 for heating today and increase them by 2.5 per cent annually over the next 10 years, we can project that a household income of

$124,775 would be needed to support the average-priced Canadian house. That's up from $89,713 today.

Might annual wage increases bridge us from today's income levels to where we need to be a decade from now if we want to maintain affordability at current levels? To get from the most recent median total family income figure of $72,240 to $125,000 over 10 years, you'd need annual pay hikes of 5.6 per cent. Dream on.

The national estimate of where prices might go mixes lower-cost markets like Halifax and Montreal with high-cost cities like Vancouver and Toronto. Vancouver – no surprise – is where the most gruesome numbers are. The average house price there jumps to $991,978 over the next 10 years, which would mean a minimum 5-per-cent down payment of $49,599.

It's usually estimated that buyers will need 2 to 4 per cent of the price of their home for closing costs like legal bills, moving and, in some locales, a land-transfer tax. If we take 2 per cent of $991,978 and add it to the down payment, we end up with people in Vancouver needing almost $69,450 in cash to buy an average home.

In Toronto, the average price rises to $689,813 in 10 years and requires a minimum down payment of $34,491. On that basis, your mortgage payment would be a massive $3,727 per month with a five-year fixed rate of 4.5 per cent. The household income needed to carry this home would be $162,950, which compares to Toronto's 2011 median total family income of $69,740. Something like $55,000 in cash would be required for the down payment and closing costs that, as of today, include a city and provincial layer of land-transfer taxes.

And what if average home price increases maintain a 5-per-cent clip for 10 more years? The average Canadian home would then run you about $637,000, Vancouver would be at $1.3-million, Calgary at about $725,000 and Toronto at almost $878,000. These are fantasy numbers, of course. Even if prices keep rising at half the average rate of the past 17 years, they'll be utterly unaffordable for everyday people. We're not far from that now.

Globe app users click here[2] for table.

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References

1. tgam.ca/dwwd
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3. twitter.com/@rcarrick