Financial Insights

from Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

Talking to Children: The Hot Housing Market

For those of us who can remember, the average Canadian home cost around $164,000 at the start of the millennium.[1] In 20 years, it has risen to around $716,000 — and, what you get for that price can vary depending upon your location.[2]

What is driving these increases? Lack of supply in some markets has helped push prices higher. As prices continue to increase, many buyers have entered the markets feeling a sense of urgency and fear of missing out. Low borrowing costs have also prompted some to take on mortgages beyond their means. With prices at all-time highs, there has also been increasing speculation.

The situation is especially discouraging for the younger generation who may feel as though home ownership is quickly becoming out of reach. In a recent interview, Robert Kelly, former Chair of the Canadian Mortgage & Housing Corporation, suggested that we have a problem and better education is needed for the younger generation.[3] He is an advocate for stiffening the current mortgage rules and suggests that the federal government needs to provide support to increase the housing supply across many markets.

For younger folk hoping to enter the housing market, Kelly suggests keeping four considerations in mind:

A house is not a guaranteed investment. While we may have become used to a hot housing market, it hasn't always been this way. Kelly points to U.S. housing data over 100 years, which shows an average increase in value of around one percent per year. Buyers need to consider that there are many hidden costs associated with home ownership and, unlike other investments, it often involves a significant up-front cost.

Focus on needs vs. wants. Focusing on what is needed may help buyers to make more prudent decisions. While a 4,000 square foot home may be the aspiration, a smaller footprint is likely to sufficiently meet an individual's living needs while being more financially achievable.

Factor in the risk of rising interest rates. Consider the impact of a reset in interest rates one or two years down the road. Many mortgage

holders may not factor in the likely scenario in which interest rates increase by one percent. Would you still have discretionary income to go on vacation or eat out at restaurants?

Think about absolute debt — and lower it. When holding a mortgage, it is important to consider not just the monthly payments, but also the total amount of debt. The average Canadian household debt-to-income ratio is extremely high at around 175 percent — the highest of the G7 advanced economies.[4] This puts many individuals at risk of default, such as in the event of a job loss. Kelly suggests that a responsible debt level is around 90 percent, where many G7 countries currently sit.

How About Your Personal Situation?

We have been approached by clients who have asked for perspectives on selling their home. While the gains may be enticing with prices at all-time highs, keep in mind that if you were to sell your home you would still need a place to go — which may incur a financial, or even a lifestyle, cost. Care should be taken when evaluating the options. Another option may be to sell a home and then rent, potentially leading to higher discretionary funds to support retirement or to gift to children during your lifetime. Renting may also be more pragmatic for some younger folk, in instances in which taking on higher debt loads does not make sense.

1. theglobeandmail.com/real-estate/the-market/canadian-home-value-has-doubled-since-2000-report/article4249097/; 2. cbc.ca/news/canada/photos/canada-real-estate-prices-scroller-1.6004260; 3. bnnbloomberg.ca/real-estate/video/canada-has-a-problem-former-cmhc-chair-robert-kelly-on-the-nation-s-hot-housing-markets~2160679; 4. ctvnews.ca/business/canadian-households-added-record-mortgage-debt-in-q4-statcan-1.5344672; data.oecd.org/hha/household-debt.htm

Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

1 First Canadian Place
38th Floor, P.O. Box 150
Toronto, Ontario M5X 1H3

Toll Free: 1-800-263-2286
Fax: 416-359-5346
www.quinncardy.com

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