



Housing affordability quickly eroding, RBC says

Higher home prices, mortgage rates, utilities and property taxes gobbling up more income

Garry Marr

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You have to go back more than a decade to find housing affordability eroding as quickly as it is now, according to a new study from one of the country's major chartered banks.

Royal Bank of Canada says all major housing classes have been impacted by the combination of rising interest rates and rising prices.

"In the second quarter, Canada's housing affordability experienced one of the largest and most broadly based quarterly deteriorations since the mid-1990s," said Derek Holt, assistant chief economist with Royal Bank. "Higher house prices, mortgage rates, utilities and property taxes all combined to drive the country-wide deterioration."

The Canadian Real Estate Association said last month that the average price of a home sold in July was \$311,495, a 12.6% increase from a year earlier. It was the strongest year-over-year increase in 14 months.

The Royal Bank, in its affordability index, measures the proportion of pre-tax household income needed to service the costs of owning a home. Condos remain the most affordable alternative, requiring only 29% of income.

A standard townhouse takes up 33% of income, a detached bungalow 41% and a standard two-storey home 46%.

The bank says Saskatchewan, Alberta and British Columbia saw the greatest erosion of housing affordability in the country. Prices have been rising faster in Saskatchewan than any other province, with the average price of a house sold in Saskatoon now up 53.7% from a year ago.

The increased costs have been pushing more and more Canadians to amortize their mortgages over 40 years, as opposed to the traditional 25 years. The increase loan time lowers monthly payments but jacks up interest costs. Some in the mortgage industry say half of new business is now in the 40-year amortization class.

"The new-found ability to extend amortization up to forty-year mortgages temporarily offsets affordability pressures by rolling the clock back to late 2005 and early 2006 affordability conditions," said the bank in a release.

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