

‘BUYER GRIDLOCK’

Entry-level homeowners priced out of upgrades

Skyrocketing housing prices in Vancouver and Toronto are now preventing even existing homeowners from being able to upgrade into a new home.



FRANK GUNN/THE CANADIAN PRESS FILES In major cities like Toronto, above, and Vancouver even homeowners who want to trade up to a bigger house are finding themselves locked out by skyrocketing prices.

While much has been made of the plight of first-time homebuyers who have to contend with lack of affordability in both markets, TD Economics notes that higher prices are now locking out those who bought entry-level homes years ago and are hoping to upgrade.

This has further worsened the supply of entry-level homes in both markets, exacerbating what TD calls “buyer gridlock.”

“Our definition of buyer gridlock refers to an existing homeowner, who is trying to trade up from an entry level home, but also faces a constrained supply of affordable options,” said Beata

Caranci, chief economist at TD Bank Group. “The purchase of an entry-level home was done with the intention of ‘trading up’ as your lifestyle changed with children, job or income.”

Caranci compared the current situation to a Monopoly board, where players usually begin by buying up the cheaper properties near the start, while also still having money left over to buy the mid-tier properties, before swooping in later in the game to buy the most expensive spots at the end of the board.

Unfortunately, if Monopoly were like the current Canadian housing market, the cheap properties would fetch mid-tier prices and buyers would be left with no money to buy other properties.

“The widening price gap between an entry-level home and a trade-up home becomes a ‘barrier to entry’,” said Caranci. “In turn, this reduces churn in the market, elevating prices and scaling back the selection of choices.”

She also pours cold water on the argument that both cities are sellers’ markets. While the sales-to-listings ratio shows that homes are readily bought up in Toronto and Vancouver, price appreciation for entry-level homes have lagged the gains for trade-up homes, worsening the gridlock.

This is readily seen in the condo market, where entry-level buyers have increasingly found themselves. Price gains for condos have consistently lagged appreciation for detached homes by a wide margin in recent years.

“On average, it costs two times more to purchase a detached home compared to a condo in the Greater Toronto Area market,” she said. “In the Greater Vancouver area, that price gap has widened to three times the level.”

The gridlock is creating another problem. Owners with entry-level detached homes locked out of upgrading are opting to put money into renovations instead. Sometimes, those upgrades are enough to take the house out of the entry-level market, worsening supply further.

Caranci said that even a housing market crash might not be enough narrow the price gap between a detached house and a condo.

“In fact, it could worsen within the core metro areas where existing condo supply and comparative opportunities for development are more readily available,” she said.

Finally, there are the economic stability risks that all of this has created. At no time in history have Canadians ever been so indebted.

“This, too, eats into future savings for retirement and carries risk for the broader economy that the next economic down cycle will be more extended than previous ones,” said Caranci.