

How we cope with pricey housing

Vancouverites are willing to pay more for less space, and carry bigger mortgages than other Canadians

BY JOCK FINLAYSON, VANCOUVER SUN MARCH 5, 2013



In Metro Vancouver, home ownership absorbs 87 per cent of median household income, a Royal Bank report says.

Photograph by: Wayne Leidenfrost, PNG Files, Vancouver Sun

"How can people possibly afford to live in Vancouver?" That was the question posed to me by an economist friend from Ottawa, following the latest release of the Royal Bank of Canada's housing affordability report which - once again - revealed that Metro Vancouver easily ranks as the most expensive place in the country to own a home.

www.rbc.com/economics/market/pdf/house.pdf

The bank's number-crunchers measure the proportion of "median" pre-tax household income required to service a mortgage and cover property tax and utility charges on a standard two-storey home, a standard detached bungalow, and a standard condominium, all at current market prices. Here, the term "standard" implies a typical residence of modest space and quality, rather than any type of luxury accommodation. It is further assumed that the homeowner contributes a 25-per-cent down payment and takes out a 25-year mortgage at a fixed five-year rate.

Based on these parameters, RBC estimates that for the average household in Metro Vancouver, the cost of owning a single-family home or a detached bungalow eats up more than 80 per cent of median pre-tax household income. For a standard condominium, the costs are much lower - around 40 per cent of income (although this excludes maintenance fees).

According to RBC's February 2013 update, on every measure the Vancouver area "remains, by far, the least affordable market in Canada," although the slump in home prices over 2012 did manage to improve things a little. In the case of a standard two-storey house, RBC finds that home ownership costs now absorb 62 per cent of median household income in Canada's second most expensive urban market, Metro Toronto, compared to 87 per cent of income in Metro Vancouver. In Calgary, just 39 per cent of the average family's income is sufficient to own and maintain a two-storey home. In Ottawa, the comparable figure is 41 per cent.

At first glance, it's hard to believe that people can, or would, choose to devote more than four-fifths of pre-tax household income to the privilege of being a homeowner. Something, seemingly, doesn't add up. Returning to my Ottawa friend's query, how do people in Metro Vancouver make home ownership work?

There are several responses. First, compared to other cities, homeowners here simply accept less. When something is expensive, people usually consume less of it. In Vancouver, homeowners "consume" less space. A large and steadily rising share of the region's population resides in condominiums of less than 1,000 square feet. As noted above, condos are noticeably cheaper than detached bungalows and two-storey homes. In this region, even families with two children are willing to opt for condominium living. In most other North American urban regions, a majority of the people who occupy Metro Vancouver's extensive condominium stock would own single-family homes with yards and significantly more living space on a per-person basis.

Second, plenty of today's homeowners purchased their abodes 10 or more years ago, when prices were far lower. In most parts of Greater Vancouver, home prices have climbed by 60 to 100 per cent since 2000, handily outstripping the contemporaneous increases in household income. This region has long been "unaffordable" compared to other Canadian metro areas, but the problem has got worse over time. By 2011 we had probably reached the outer limits of feasible home pricing, and sure enough, prices have been trending down for the past year or so. Further declines are likely, at least on an inflation-adjusted basis, given that home prices in the region are still near all-time highs when judged against both rents and incomes.

Third, the prices for "standard" properties used in the Royal Bank's housing affordability reports don't capture the diversity of housing markets within the region. In particular, the average prices for both two-storey and condominium homes are distorted by the very expensive markets on the North Shore, the City of Vancouver, and a few selected neighbourhoods scattered across Burnaby, Richmond and south Surrey. It's important to note that the City of Vancouver and the North Shore - the most expensive housing markets in B.C. - account for only two-fifths of the region's population. Affordability is less of an issue in Vancouver's eastern suburbs and New Westminster, as well as in communities south of the Fraser River.

Finally, in the case of traditional single-family residences, many homeowners in Greater Vancouver have developed secondary suites - typically rented basement units - that serve as handy "mortgage helpers." An extra \$800 or \$1,200 a month enables a fair number of homeowners to service large mortgages, particularly in an era of rock-bottom interest rates.

Notwithstanding the above comments, it's true that many households in the Lower Mainland are saddled with punishing debt burdens that are mainly attributable to the high cost of home ownership. This situation helps to explain the soft retail sales figures and the financial anxiety felt by many families. Statistics Canada data confirm that B.C. has both the biggest household debt burden and the highest ratio of interest payments to disposable income in the country, and outsized mortgages are the primary reason.

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