

NATIONAL POST

Real estate affordability to improve, experts say

National Post

Tue 12 Feb 2008

Page: FP1

Section: Financial Post

Byline: Alia McMullen

Source: Financial Post

Housing affordability is likely to improve this year as house-price growth eases and falling interest rates make mortgages cheaper, economists say.

Michael Gregory, senior economist at BMO Capital Markets, said housing affordability was becoming an increasingly important issue in some Canadian cities, with house prices jumping at "unsustainable" levels amid a surge in population-driven demand, a strong jobs market and relatively low mortgage costs.

In Saskatoon, the cost of a new house skyrocketed an amazing 45.1% in 2007, while prices were up 25.9% in Regina and 21.5% in Edmonton, Statistics Canada figures showed yesterday.

Prices were up 4.1% in Montreal, 6.4% in Vancouver, 6% in Calgary and 3.4% in Toronto and Oshawa over the year.

Nationally, new house prices rose a healthy 6.2% last year, but were down considerably from the 12.1% annualized pace posted in August as supply closed in on demand.

While new home prices should remain strong in 2008, the pace of growth will continue to moderate to about 2% to 3%, Mr. Gregory said.

The slower pace of growth is already evident in the market as newhome prices increased only 0.1% in December, well below the average monthly increase of 0.5% in 2007.

"The key thing is the last few months have been quite subdued in terms of the monthly increases, at least the trend has been, and if that continues, we'll probably have subdued home-price inflation going forward," Mr. Gregory said.

"The market has a way of cooling itself. Alberta had just got so expensive that people stopped moving there. Eventually supply catches up to demand, and that's what happened in Calgary," he said.

He said existing home prices, due on Friday, should also show signs of easing, with both segments of the market slowing further in 2009.

Rishi Sondhi, economist at RBC Capital Markets, said housing should become more affordable as house-price gains ease and interest rates fall, with the Bank of Canada expected to cut interest rates again in March following a 25-basis-point cut to 4% in January.

Some economists expect rates to reach as low as 3% by mid-year.

Mr. Sondhi said the moderation in house-price growth was placing less pressure on inflation, leaving the door open for the Bank of Canada to cut interest rates to prevent a significant economic slowdown.

Larry Stewart, broker and owner of RE/MAX Saskatoon, said the sharp rise in the city's house prices in 2007 was driving more people, particularly first-time home buyers, into cheaper high-density living, such as condominiums.

"That's filling the gap for the newhome buyer [who] can't afford to get into the market with increased house prices," Mr. Stewart said, adding that prices in Saskatoon would likely rise a further 20% in 2008.

However, Mr. Stewart said aggressive competition between mortgage companies was helping younger people to get into the market, offering, for example, loans equal to 100% of the value of a home.

Condominium sales have been surging across Canada, particularly in such high-density city areas as Toronto, where condo sales accounted for 52% of all new-home sales in 2007, according to figures from N. Barry Lyon Consultants and RealNet Canada.

Illustration:

• Graphic/Diagram: Statistics Canada, New Housing Prices (December, 2007 Vs. December, 2006) / AFTER A BIG PRICE JUMP IN 2007, EASING INTEREST RATES COULD SIGNAL BETTER NEW HOME AFFORDABILITY.

Idnumber: 200802120103

Edition: National

Story Type: Business

Length: 518 words

Subject: HOUSING