

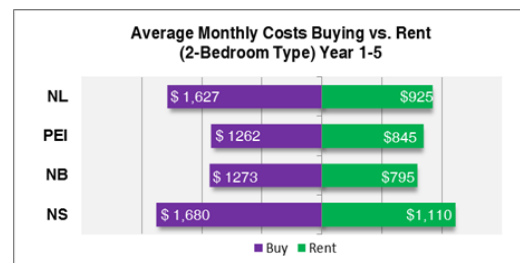
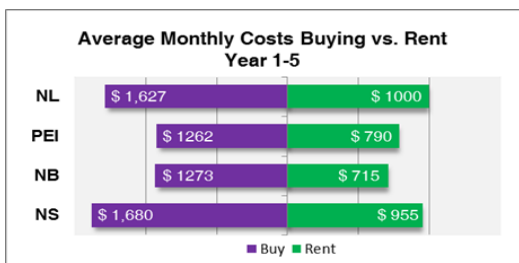


**Subject:** Should Atlantic Millennials Rent or Buy?

**Comments:** Millennials (also known as Generation Y, 1980 – 2000) are a new and different generation. Their inclination to technology helps shape how they shop. Millennials are used to instant access to price comparisons, product information and peer reviews. As they reach their prime working and spending years, Millennials' impact on the housing market is going to be huge. To most Atlantic Millennials, renting is a sound financial alternative to ownership in the short run. But for lifestyle reasons, as well as family and peer pressure, a lot of young people will find it hard to give up their home ownership aspirations.

Bank of Montreal's recent Millennial Home Buyer Report (2016) revealed that 76% of Canadian Millennials who currently rent expect to buy a home within the next five years; location and affordability are their two major concerns. RBC Economics' latest release indicates 23% of Canadians in the Atlantic Provinces are considering a purchase within next two years; 5.52% of Atlantic Millennials are more likely to consider purchasing a home with a family member. Another new poll from ReMax Canada shows 37% of Millennials expect help with their down payment from a family member and can afford an average of a 10% down payment.

TDP crunched the numbers of average single-detached home prices and average monthly rents from Canadian Housing and Mortgage Corporation and MLS<sup>®</sup> historic sales data for young prospective home buyers in the Atlantic Region. In order to compare the costs of owning and renting for young home buyers, TDP assumed a 10% down payment on a 5-year fixed mortgage rate (2.59%) and a 25-year amortization period. For rental rates, we used the average value for all bedroom and two-bedroom types from CMHC historic Rental Market reports. In addition, we also take into account the most common additional costs typically unique to home owners, including home and mortgage insurance, heating, maintenance and property tax. With those assumptions for a five year period, the monthly price difference between buying and renting is observed highest in Nova Scotia (\$ 725), followed by Newfoundland and Labrador (\$ 627), New Brunswick (\$ 558) and Prince Edward Island (\$ 472). Note that the average cost of renting (all bedroom types) is very high in Newfoundland and Labrador, about \$1,000 per month including all additional expenses. The average cost of buying a home is particularly pronounced in Nova Scotia and Newfoundland and Labrador: in the City of Halifax, the average cost of buying a typical two-storey single-detached home is more than \$25,000 in the cities of Charlottetown or Moncton.



Credit: Turner Drake and Partners Ltd.

The charts above compare the average monthly cost of renting vs. buying. Overall, it is 40% cheaper to rent an apartment (all bedroom types) compared to buy a house in the first five years; this number drops to 37% versus renting a two-bedroom apartment, the most in-demand apartment unit type.

The above analysis ignores the equity available to home buyers. To see how they might have fared over the past five years, under the same assumptions as above, and the 2011 and 2015 average sale price estimates from CMHC, the following table shows the total 5-year savings, ignoring the time value of money for simplicity. Negative numbers mean that renting costs less than buying and vice versa:

Atlantic Provinces	2011 Mortgage	2015 Sale Price	Equity	Equity Less 10% Downpayment	5-year Mortgage plus other Homeownership Cost	5-year Renting Cost	Total 5 Years Savings
Newfoundland and Labrador	\$ 167,216	\$ 254,515	\$ 126,910	\$ 110,188	\$ 81,780	\$ 52,080	\$ 80,488
Prince Edward Island	\$ 157,769	\$ 167,000	\$ 46,604	\$ 30,827	\$ 84,120	\$ 47,160	-\$ 6,133
New Brunswick	\$ 141,548	\$ 164,000	\$ 55,982	\$ 41,827	\$ 77,100	\$ 44,820	\$ 9,547
Nova Scotia	\$ 185,951	\$ 221,935	\$ 80,032	\$ 61,437	\$ 89,820	\$ 54,000	\$ 25,617

Data Source: CMHC, MLS<sup>®</sup> and Turner Drake and Partners Ltd.

CHMC's recent Housing Market Outlook report projects that mortgage rates are expected to increase slightly ( $\leq 1\%$ ) by the end of year 2017. According to TDP's foregoing comparison assumption, renting is still cheaper in the Atlantic Provinces but total savings are less when compared to previous years as housing price increases slowly in response to the economic downturn as illustrated in the following table:

Atlantic Provinces	Average Sale Price of Owner Occupied Single Dwelling (\$)				Average Net Rent (2- bedroom-\$)			
	2006	2011	2015	2017 (f)	2006	2011	2015	2017(f)
Newfoundland and Labrador	\$ 108,793	\$ 185,796	\$ 254,515	\$ 255,000	\$ 517	\$ 629	\$ 834	\$ 925
Prince Edward Island	\$ 149,286	\$ 175,299	\$ 167,000	\$ 175,000	\$ 632	\$ 821	\$ 822	\$ 845
New Brunswick	\$ 122,646	\$ 157,276	\$ 164,000	\$ 158,900	\$ 611	\$ 690	\$ 748	\$ 795
Nova Scotia	\$ 160,101	\$ 206,612	\$ 221,935	\$ 223,000	\$ 759	\$ 881	\$ 990	\$1,110
<b>Average</b>	\$ 135,207	\$ 181,246	\$ 201,863	\$ 202,975	\$ 630	\$ 755	\$ 849	\$ 919

Data Source: CMHC, MLS<sup>®</sup> and Turner Drake and Partners Ltd.

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