



Subject: An Affordable Housing Market? Yes, we have it!

Comments: The idea of having one's own house is on the minds of many Canadians these days, particularly millennials eager to achieve the financial milestone of becoming a first-time homeowner. The Canadian Mortgage and Housing Corporation (CMHC) sets its affordability limit at 32% of gross household income, but a recent CBC article revealed that new mortgage rules with a higher interest rate "stress test" could decrease the mortgage amount borrowers can qualify for by upwards of 25%. Hot markets and rising prices leave us wondering: are single-detached houses in Atlantic Canada affordable for the middle-class families living here? Or are we in danger of falling victim to Vancouver and Toronto style hot housing markets?

To find the answer, TDP crunched the numbers for average single-detached home prices and average household incomes. Assuming a 5% down payment on a 5-year fixed mortgage rate, associated mortgage insurance, and a 25-year amortization period, we calculated monthly mortgage amounts and compared them against estimated and projected income levels. The following table shows the percentage of gross income needed to afford the "average" house for each Atlantic Province and its major cities:

Atlantic Provinces	2016 House Avg. Value	2016 Mortgage Amount	2016-2021 (Monthly PMT)	Ratio of Monthly Mortgage to Monthly Household Income		
				2016	2019	2021
Nova Scotia	\$387,219	\$381,101	\$1,686	26.12%	23.77%	22.32%
New Brunswick	\$316,248	\$311,251	\$1,390	22.35%	20.45%	19.27%
Prince Edward Island	\$322,053	\$316,965	\$1,415	22.75%	20.73%	19.50%
Newfoundland and Labrador	\$421,707	\$415,044	\$1,837	27.13%	24.33%	22.58%
Average	\$361,807	\$356,090	\$1,582	24.59%	22.32%	20.92%
Major Atlantic Cities	2016 House Avg. Value	2016 Mortgage Amount	2016-2021 (Monthly PMT)	Ratio of Monthly Mortgage to Monthly Household Income		
				2016	2019	2021
Halifax, NS	\$415,041	\$408,783	\$1,808	24.78%	22.66%	21.33%
Fredericton, NB	\$308,833	\$303,953	\$1,357	19.03%	17.39%	16.37%
Moncton, NB	\$315,586	\$310,600	\$1,387	20.79%	19.05%	17.96%
Saint John, NB	\$344,017	\$338,582	\$1,512	22.11%	20.41%	19.35%
Charlottetown, PEI	\$322,982	\$317,897	\$1,419	21.36%	19.42%	18.24%
St. John's, NL	\$421,000	\$414,348	\$1,834	22.51%	20.03%	18.48%
Average	\$354,577	\$349,027	\$1,553	21.80%	19.80%	18.60%

Source: CMHC, Ratehub, Statistics Canada, Environics Analytics and Turner Drake and Partners Ltd.

Overall, monthly mortgages cost approximately one quarter of monthly household income, about 7 percentage points below the CMHC benchmark affordability ratio. Surprisingly, in the major cities, where one might expect housing to be less affordable, higher wages mean living in the city is actually a more affordable option for many. On an individual basis, housing becomes more affordable the longer you own the house, as evidenced by the falling percentage of gross income to mortgage payments: buyers in 2016 stand to enjoy better affordability over the next five years as incomes increase. Take care not to be fooled into thinking that housing will become more affordable - if house prices rise faster than incomes, that percentage will increase. But CMHC's recent Outlook report on short-term Atlantic Region real estate market trends projected a moderate decline in prices in late 2016 due to reduced housing starts, followed by a slight increase in 2017. The forecast calls for continued affordability in the Atlantic Region.

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