Downsizing the Canadian Dream: Homeownership Realities for Millennials and Beyond

March 2015

Highlights

- Although 75% of Millennials think that home ownership is a primary long-term goal and 73% believe a home is an excellent investment, many will have to revise their goals to accommodate rising unaffordability in Metro Vancouver.
- In Metro Vancouver, the average property now requires more than 48% of the average household's monthly income—dramatically higher than the debt-load of 32% recommended by the Canada Mortgage and Housing Corporation.
- In the past 15 years, the percentage of income required to maintain a home in Vancouver has risen to almost 76% from a low of 42% in 2002.
- However, since 2005, the Vancouver condo market has only increased 43%, while the average property value has increased by more than 126%.
- Metro Vancouver is also experiencing an affordability crisis, with only Maple Ridge, New Westminster, Pitt Meadows, Port Coquitlam and Langley being classified as affordable.
- If these trends continue, a forecast for Metro Vancouver sees the average home price in Vancouver exceeding $2.1 million by 2030—requiring more than 100% of household income to maintain.
- By that time, the only affordable community in Metro Vancouver will be Langley.
- While the condo market in Vancouver will become more unaffordable, other communities will keep pace and still offer affordable options.
- While the affordability of detached homes is moving further and further out of the reach of the average household, condominiums will become a more common and desirable way to achieve the dream of property ownership.

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Western Canada was settled on the dream of property ownership. Enterprising European immigrants were told that for the mere cost of showing up and their effort to cultivate the land, they could have something the old world could never offer: a piece of land to call their own.

In post-war years, this dream of home ownership came to be redefined to mean a bungalow and white picket fence. The sale of urban and suburban lots skyrocketed as families left inner city life for the quiet and controlled environment of residential neighbourhoods. For two generations, the single detached home has represented the focal point of the Canadian Dream.

This dream is now in jeopardy. In Metro Vancouver, the average property now requires more than 48% of the average household's monthly income—dramatically higher than the debt-load of 32% recommended by the Canada Mortgage and Housing Corporation.[i] While certain communities remain affordable, the cost of housing in the vast majority of communities is pushing residents to their financial limit. This report forecasts current trends out to 2030, finding that in 15 years all detached property in Metro Vancouver will be unaffordable for the average household.

While average property values continue to climb, the condominium market will largely remain affordable outside of the major urban centre of Vancouver. In the future, the most affordable and viable ownership options for young families will be condos in areas like Langley, Surrey, Port Moody and Coquitlam.

Is the Canadian Dream dead? Yes and no. It is being redefined, for better or worse.

Millennials and the dream of ownership

Every generation is defined by traits or key events and Millennials are no different. Also known as Generation Y, Millennials are the generation that follows Generation X and were born between 1982 and the early 2000s.[ii] *Many may have grown up as children of divorce and were overly protected possibly due to the deluge of sensational information provided by a pervasive digital media. Many are putting off marriages, home purchases and live with their parents longer than previous generations. Millennials are also seen as having street smarts, being competitive, social and having high self-confidence.*[iii]

While many assume that Millennials want to rent a cool apartment in a hip inner-city neighbourhood forever, a recent study by the Demand Institute revealed that 60% of Millennials say they eventually want to own a home, 75% think ownership is a primary long-term goal and 73% believe a home is an excellent investment.[iV]

Affordability and livability: rising costs relative to wages

In the housing market, Vancouver is currently experiencing market inefficiencies similar to other world cities like Hong Kong, Sydney and San Francisco. Unfortunately for would-be homeowners, Vancouver has the dubious distinction of being ranked the second most unaffordable city in the world, after Hong Kong as rated in the *11th Annual Demographia International Housing Affordability Survey*.[v] This survey ranked the affordability of 86 major markets with more than one million residents living in nine nations including Australia, Canada, Hong Kong, Japan, Ireland, New Zealand, Singapore, UK and the United States.

The survey authors note that "This is Vancouver's worst housing affordability in the years of the *Demographia International Housing Affordability Survey*." Waterfront cities including San Francisco, California and Sydney, Australia rank third and fourth in the report. Other cities of note such as London, England ranked seventh worst and New York City ranked 15th worst for affordability, well behind Vancouver and even Toronto, which ranked 13th.

However, regardless of these affordability measures, Vancouver remains one of the most desirable places to live in Canada. In The Economist Intelligence Unit report *A Summary of the Liveability Ranking and Overview August 2014*, Vancouver is ranked as the third most livable city in the world.[vi] The study measured 30 qualitative and quantitative factors over five categories: stability, healthcare, culture and environment, education and infrastructure. Vancouver ranked just behind Vienna and Melbourne. Melbourne, much like Vancouver, also has an affordability issue as they ranked sixth worst for

Least affordable[1]	Most livable[2]
Hong Kong	Melbourne
Vancouver	Vienna
Sydney	**Vancouver**
San Francisco	Toronto
San Jose	Adelaide
Melbourne	Calgary
London	Sydney
San Diego	Helsinki
Auckland	Perth
Los Angeles	Auckland

1) 11th Annual Demographia International Housing Affordability Survey: 2015, Ratings for Metropolitan Markets, Australia, Canada, China (Hong Kong), Ireland, Japan, New Zealand, Singapore, United Kingdom, United States
2) The Economist, Intelligence Unit - A Summary of the Liveability Ranking and Overview, August 2014

affordability in the *Demographia International Housing Affordability Survey*. Although Vienna was not included in the Demographia study, it too has a high unaffordability ranking for purchased property(albeit a very reasonable rental market), as shown in data compiled by Numbeo.com.[vii]

Clearly, there is a relationship between excellent livability and high prices. The more people who desire to live in Vancouver, the higher prices will rise in order to find equilibrium. However, a distinction must be made between high prices and unaffordable prices. As demand pushes up prices, it should also push up average incomes in one of two ways. One would expect employers to increase wages to attract the high-quality employees that are moving into the area, or lower earning residents to be displaced by higher earning newcomers, thus pushing up the average wage. Neither of these things seem to be happening in Vancouver. While housing prices have skyrocketed over the past number of years, wage increases have barely kept up with inflation. Therefore, high prices themselves are not the focal point of the affordability problem—it is the vast disparity between income and cost of ownership.

Percent of income required for home ownership

CMHC debt ratio recommendations

As wages have not kept pace with costs, Vancouver is experiencing a vast divergence between the bulk of the properties in the market and the local residents' ability to pay for them. One way of analyzing this disparity is to determine how much of their gross annual income an average Vancouver household requires to service their housing costs. This is called the Gross Debt Service ratio (GDS), and is used by lenders throughout Canada to determine the quality of a mortgage application.

Canada Mortgage and Housing Corporation states that housing costs should not exceed 32% of a homeowner's gross monthly income. These housing costs are made up of four categories: principal, interest, taxes and heating (PITH).[viii]

Based on these values, mortgage lenders can determine the maximum house value that an applicant can purchase, while maintaining a reasonable standard of living. In Metro Vancouver, the median gross income for households is $6,225 per month.[ix] This indicates that an affordable mortgage should cost no more than $1,992 per month.

What will this buy them? Assuming a five-year fixed rate mortgage of 2.89%,[x] the most expensive home the purchaser can buy appears to be $492,667, but that is only if they can manage to accumulate a whopping $123,167 as a down payment (25% of the purchase price). A more reasonable down-payment of 5% yields a maximum home price of $384,947. With average Metro Vancouver prices of more than $1 million for detached[xi] and $407,500 for condominium units,[xii] maintaining the recommended 32% GDS ratio is next to impossible.

Actual debt service ratios

In reality, the average GDS in Vancouver is rising above 75%. In the past 15 years, the percentage of income required to maintain a home in Vancouver has risen to almost 76% from a low of 42% in 2002. This upward trend is either pushing new homebuyers out of the Vancouver market or, more commonly, causing families to overextend themselves by dramatically exceeding recommended debt service levels.

However, at an average price of $407, 550, condominium units in Vancouver are vastly more affordable. Given average incomes, this translates into a 30.6% GDS. It is no wonder

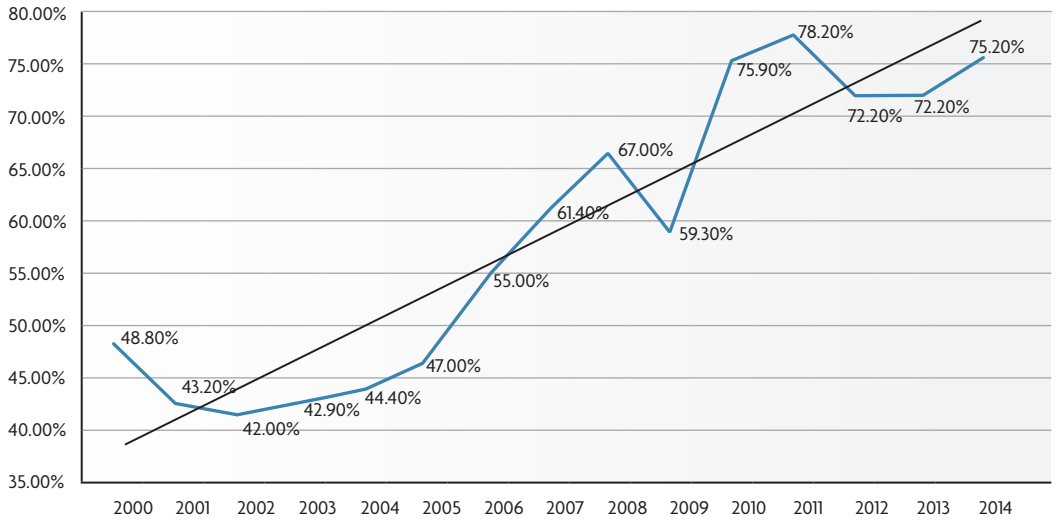
Based on a $6,225 monthly income

Down Payment %	5%	10%	15%	20%	25%
Down Payment $	$19,247	$40,744	$64,800	$92,875	$123,167
Mortgage	$365,700	$366,700	$367,200	$371,500	$369,500
Maximum home price	$384,947	$407,444	$432,000	$464,375	$492,667
CMHC premium %	3.15%	2.40%	1.80%	0.00%	0.00%
CMHC premium $	$11,520	$8,801	$6,610	$0	$0
Total Mortgage	$377,220	$375,501	$373,810	$371,500	$369,500
Mortgage payment*	$1,764	$1,756	$1,748	$1,737	$1,728
Estimated property taxes**	$128	$136	$144	$155	$164
Estimated heating expense	100	100	100	100	100
Total payment	$1,992	$1,992	$1,992	$1,992	$1,992

Source: vancity.com
* mortgage payment based on interest rate of 2.89% and amortization of 300 months
**annual property taxes estimated at 0.4% of property value

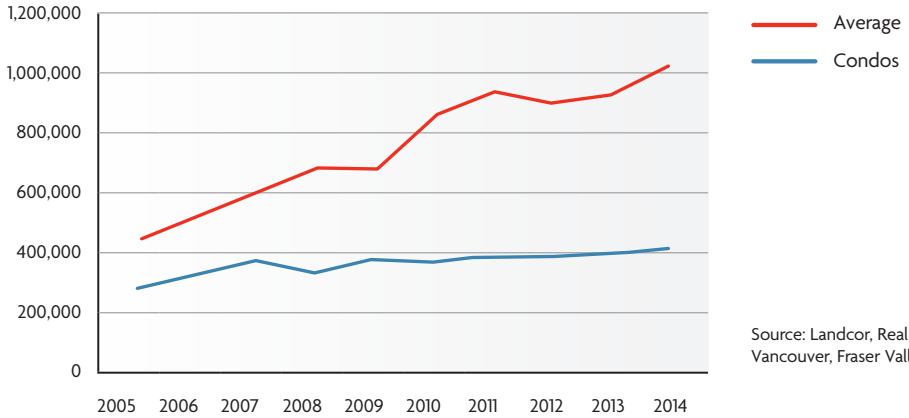
than many Millennials that currently want to get into the property market are targeting condos. No doubt many would hope that this "starter home" would be the first stop on the way to the ultimate goal of upgrading to a home that is more family friendly. However, since 2005, the condo market has only increased by 43%, while the average property has increased by more than 126%. This shows that the jump up from a condo will soon be out of reach, with many condo owners finding themselves financially stuck in their starter.

Average debt service ratio, Vancouver (2000-2014)



Source: Landcor, Central 1 Credit Union, Statistics Canada CANSIM table 111-0009

Average prices, Vancouver



Source: Landcor, Real Estate Board Greater Vancouver, Fraser Valley Real Estate Board

The cost of a down payment

Assuming a home buyer wants to make a 25% down payment on a $500,000 home, it will take a significant amount of time to gather the $125,000 required. Granted, a minimum of a 5% down payment – $25,000 – is much less, but the carrying costs of the mortgage will rise to a level that is much more unaffordable.

When taking into account an estimated 2014 median income of Metro Vancouver of $74,700, saving for a down payment can be seen as unattainable, all the while the cost of homes continue to increase. Even if a household had been able to save $800 per month for the last 10 years, that would equal a $96,000 nest egg for a home. If used as a 25% down payment, the maximum home value would be $528,00.[xiii]

The most recent "Annual State of the Residential Mortgage Market in Canada" study published by the Canadian Association of Accredited Mortgage Professionals found that 40% of Canadians who purchased a home between 2010 and 2014 used their personal savings or a co-buyer's personal savings to fund a down payment.[xiv] *Other sources in the same period included gifts, loans or withdrawals from RRSPs.*

- *Savings: 40%*
- *Loan from a financial institution: 28%*
- *Withdrawal from an RRSP (including via the Home Buyers Plan): 9%*
- *Loan from parents or other family members: 7%*
- *Gift from parents or other family members: 6%*
- *Other sources: 5%*

Unaffordability radiating outward

If the dream of owning a home is too difficult to achieve in Vancouver, common sense might indicate that Millennials look to the suburbs. Indeed, a November 6, 2014, Metro article that referred to Statistics Canada data showed that Vancouver suffered a net loss of 1,571 residents in the 20 to 30 age group in 2013, up from 770 the year before.[xv]

Yet homes in other cities in Metro Vancouver are more affordable, but not as much as some would hope. Comparison between cities shows that the percentage of income required to maintain a home in other cities has also been trending upwards over the past 15 years.

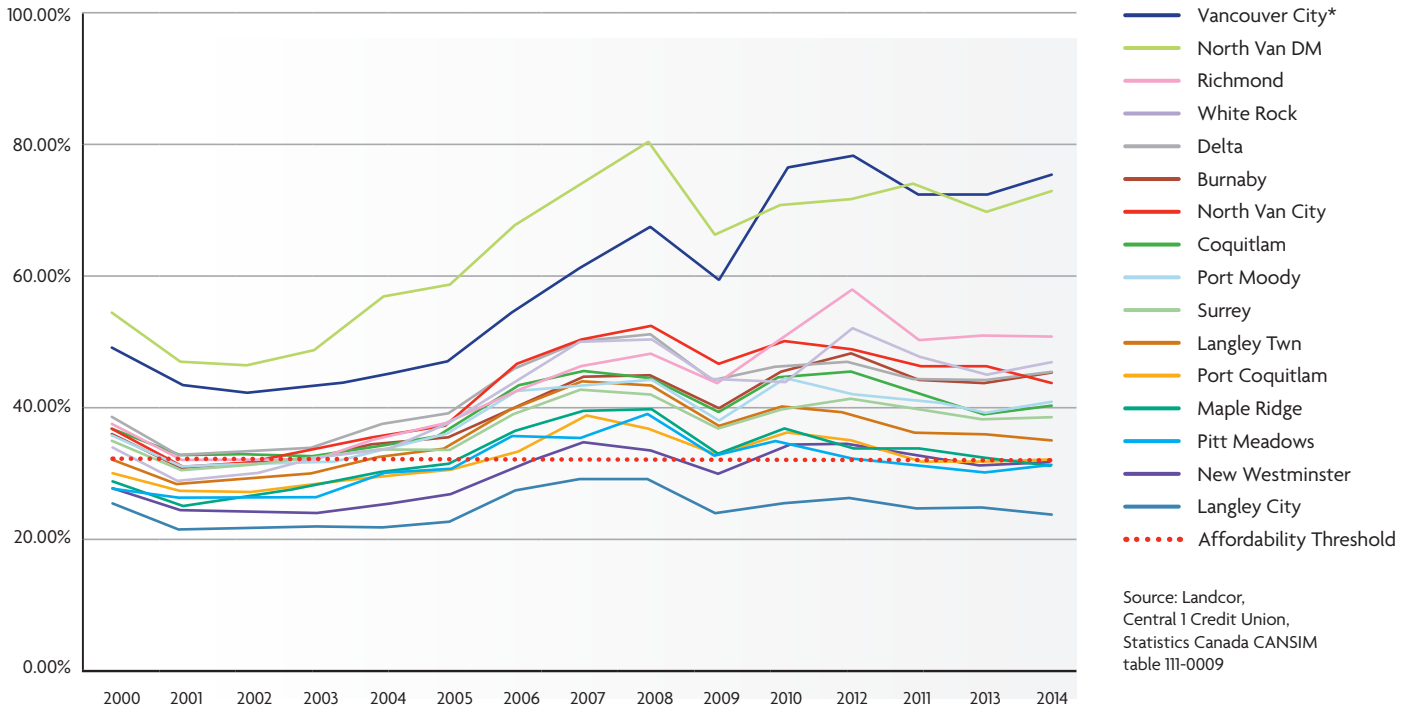
Not surprisingly, North Vancouver has an equally high GDS ratio at 73%, rising from a low of 46% in 2002. As such, North Vancouver is the only other jurisdiction that has consistently been above CMHC's recommended limit for the past 15 years (with the exception of West Vancouver, not shown, which has now reached more than 163% of average household income).

The general trend, consistent with a broad population move towards other areas of Metro Vancouver, is from affordability to unaffordability. Municipalities such as Burnaby, Langley, Richmond and White Rock have dramatically increased to GDS ratios between 45% and 54% in 2014 from ratios of between 28% and 32% in the early 2000s. Overall, the majority of Metro Vancouver has marked increase in unaffordability over the time period.

2014 gross debt service ratios per municipality

Community	% GDS
West Vancouver	165
Vancouver	76
North Vancouver DM	73
Richmond	51
White Rock	47
Delta	46
Burnaby	46
North Vancouver City	44
Coquitlam	41
Port Moody	41
Surrey	39
Langley Twn	35
New Westminster	32
Port Coquitlam	32
Maple Ridge	31
Pitt Meadows	31
Langley City	23

Average debt service ratio, Metro Vancouver (2000-2014)



Source: Landcor, Central 1 Credit Union, Statistics Canada CANSIM table 111-0009

If Millennials wish to own a detached home, the cities of Maple Ridge, New Westminster, Pitt Meadows, Port Coquitlam and Langley would be key target areas. The average GDS ratio in these municipalities is currently hovering between 31% and 32%. However, if current trends continue, even this will not last.

A back yard in the future?

Historical trends indicate clearly that affordability and the ability to enter the Vancouver and wider Metro Vancouver housing markets has worsened during the last 15 years. Looking forward to 2030, the picture looks more bleak as incomes are projected to rise around the rate of inflation (2.5%) and house prices continue their upward trend.

This rise is due to multiple factors including a limited supply of land becoming more and more densely populated. British Columbia's Lower Mainland is strategically landlocked for growth which thereby forces migration of supply to stretch out to the east. With the mountains to the north, the U.S. border to the south, and the Pacific to the west, development can only occur eastward or upward. A Statistics Canada report referred to by the CBC noted that a population growth scenario could see more than two million people arriving in British Columbia by 2038 with many ultimately residing in Metro Vancouver.[xvi] The resulting scenario will see single detached homes become a scarce luxury, which may also increase prices disproportionally compared to regions were land is less scarce.

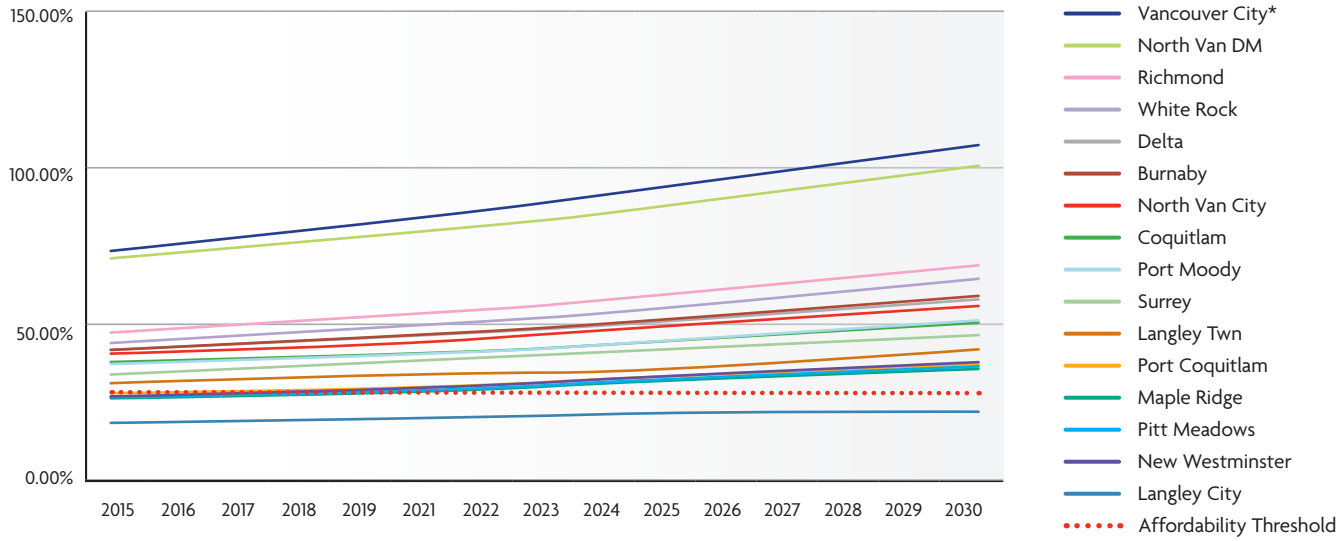
If these trends continue, a forecast for Metro Vancouver sees the average home price in Vancouver exceeding $2.1 million by 2030.[xvii] This will result in a price-to-income ratio of 108%. That is, monthly mortgage payments will exceed monthly household income by 8%. Similarly, detached homes in North Vancouver will require over 99% of household income to maintain. In 15 years, the average household will be resolutely priced out of the urban market.

In the remaining municipalities of Metro Vancouver, GDS ratios will continue their movement upwards. In some areas, affordability measures could reach crisis levels. For example, Richmond could hit a GDS of almost 70%, from a ratio of 50% currently. Burnaby, Coquitlam, Port Moody and White Rock will all creep above 50%. According to these projections, unaffordability will steadily radiate outwards.

However, most concerning is the reality that even the currently affordable communities of Maple Ridge, New Westminster, Pitt Meadows and Port Coquitlam will become unaffordable to the average household within 15 years. Maple Ridge will see its GDS ratio rise to almost 39%, New Westminster to 40%, Pitt Meadows to 38% and Port Coquitlam to 39%.

Perhaps not surprisingly, given its geography, in 2030 Langley will remain the only affordable community within Metro Vancouver. With average property values projected to remain stable at around $525,000, an average household should be able to cover housing expenses with only 26.8% of their income.

Projected average debt service ratio, Metro Vancouver (2015-2030)



Source: Vancity projections

From picket fence to the new condense

By 2030, the average detached home in Metro Vancouver will be far out of reach for the average family. Does this mean that the Canadian Dream is dead? Maybe not, if we adapt. As mentioned previously, most of the affordability left in the property market is in condos, and that is projected to remain fairly constant throughout the next 15 years.

If current trends continue, the condo market in Vancouver will rise about 4.4% year over year between now and 2030. This means that the average condo price will go up to $810,500 from a current value of $407,500. This increase will bring Vancouver condos into unaffordability range by 2018. Similarly, Burnaby units will increase much faster than incomes, reaching unaffordability in 2023.

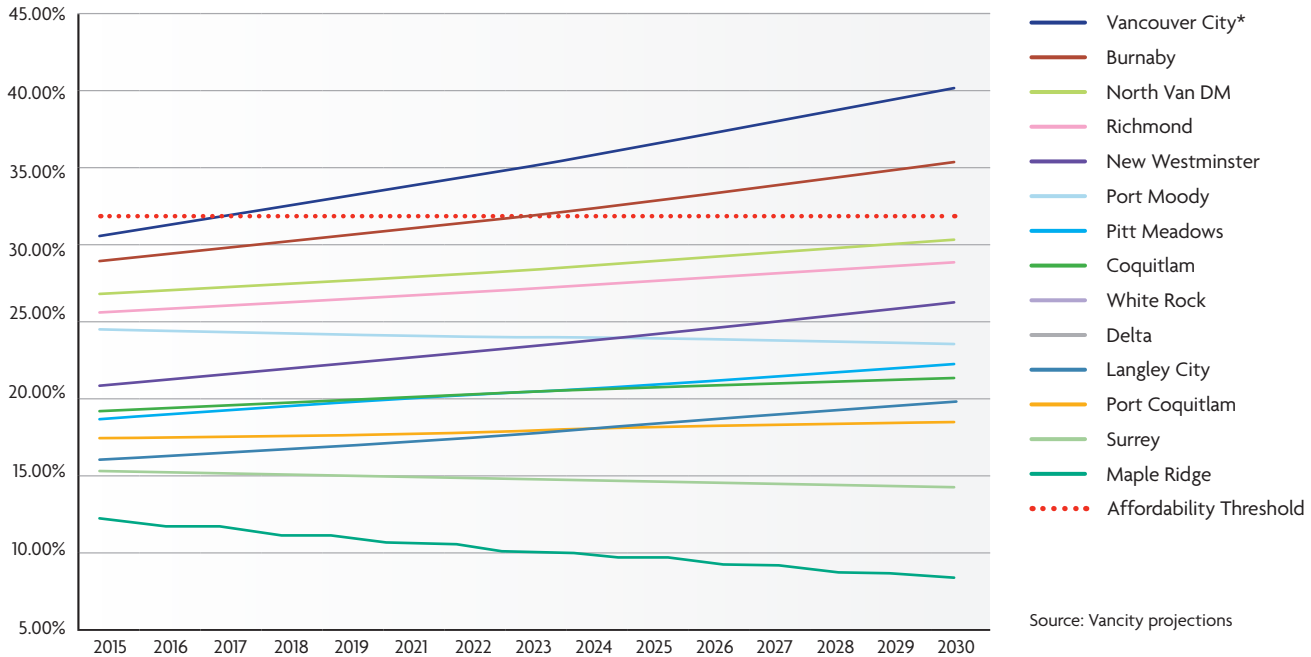
However, the good news is that condos in all other communities will remain largely affordable. Points of note are that North Vancouver GDS ratios will only rise to 30%, Richmond will remain below 29% and Port Moody will stabilize at around 24%. Surrey condos will actually become more affordable, only requiring 14.3% of gross income to maintain, which will be even more affordable than New Westminster (26%), Coquitlam (21%) and Port Coquitlam (19%).

What this means is that, while the affordability of detached homes is moving further and further out of the reach of the average household, condominiums will become a more common and desirable way to achieve the dream of property ownership.

2030 gross debt service ratios per municipality

Community	% GDS
West Vancouver	238
Vancouver	108
North Vancouver DM	100
Richmond	69
White Rock	64
Burnaby	59
Delta	58
North Vancouver City	56
Coquitlam	54
Port Moody	52
Surrey	48
Langley Twn	43
New Westminster:	40
Port Coquitlam	39
Pitt Meadows	39
Maple Ridge	39
Langley City	27

Projected average debt service ratio – condominim units, Metro Vancouver (2015-2030)



Source: Vancity projections

Recommendations

Fifteen years is enough time to be able to influence the trends that are leading to ever-increasing unaffordability across the region. However, all levels of government and financial institutions will have to work in concert to redefine a sustainable Canadian Dream for Metro Vancouver.

Municipal Government

- Zoning for high-density multi-unit buildings must be increased, recognizing that a "starter home" will soon be a "forever home."
- Design growth centres with a dense core, tied to mass transit and efficiently leveraged infrastructure.
- Maximize incentives for developers to build for affordable workforce housing.
- Improve transit from suburban areas to central Vancouver, as well as inter-city transit throughout the region

Provincial Government

- Require every municipality to have a affordable housing plan that is tied to providing safe, decent and affordable housing to its residents.
- Provide inclusionary zoning, reduced permitting costs and improved property tax incentives for the development of affordable housing should.
- Require communities to permanently zone land (in a similar fashion to the Agricultural Land Reserve) to provide capacity for affordable housing development in conjunction with regional housing trusts.
- Dedicate a portion of the Property Transfer Tax annually to support the creation of perpetually affordable rental housing and home ownership options across the province.

Federal Government

- Use the tax code, including tax credits for affordable rental housing, and the regulation of financial institutions to support the development of permanently affordable housing.
- Consider allowing accelerated depreciation, which has previously been used to stimulate investment in rental housing in Canada.
- CMHC could look to work with the bank regulatory regime to drive investment into affordable housing.
- CMHC could also build a policy framework to support the doubling of the density that currently sits on properties it financed in the past that is held by nonprofits and co-ops for affordable housing.

Financial Institutions

- Stabilize mortgage interest rates at levels that restrict speculative purchasing or reliance on increasing market values for homeowner financial stability.
- Include supplementary income, such as rental income from a basement unit or extra bedroom, into approval calculations.
- Maximize access to down payment loans for families entering the more sustainable condominium market.
- Encourage current renters to look at other vehicles of long-term investment, such as indexed mutual funds.

Individuals

- Seriously consider the financial costs and benefits of ownership. If ownership does not currently make financial sense, institute an automated savings and investment plan that can build equity over the long term.
- Families should work together and embrace new forms of multi-family living and owning arrangements, such as housing co-operatives, co-housing and co-ownership.
- Reduce your footprint: consider a simple, small or tiny house with multi-functional space and furnishings.
- Consider intergenerational community living

Methodology

Data was collected from Central 1 Credit Union, Landcor and Real Estate Board (Greater Vancouver & Fraser Valley) to determine average historic sale price of arms-length transactions, inclusive of new and resale properties, detached and multi-unit, for each community within Metro Vancouver.

For each year from 2000 to 2014, these values were correlated to the median household income in Metro Vancouver based on Statistics Canada data. As many residents live in one community and work in another, median income for each community was not needed.

Historic Gross Debt Service ratio was calculated by dividing annual mortgage carrying costs at origination by median income. Mortgage carrying costs were determined by combining average 5-year fixed rate (per year) and average price (per year, per community). 5-year fixed rates with 25-year amortization was assumed, as these are the most popular options.

To project future Gross Debt Service ratios, Vancity analyzed trends in the housing market over the past 15 years (10 years for multi-unit) for each community. Future housing prices were projected by applying historical average growth by community. Calculations were projected for each year to 2030. Yearly wage increase was assumed to be 2.5% and 5 year fixed rate held constant at current rate of 4.88.

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x. According to Vancity mortgage data, this is the most popular type of mortgage.

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