More than half of young adults waiting till next year to buy home: RBC survey

By Sunny Freeman, The Canadian Press

TORONTO - As rising home prices continue to outpace income growth, many young Canadians have decided to delay home ownership for another year, according to a poll released Thursday by Royal Bank of Canada.

RBC's annual home ownership poll found that 55 per cent of respondents aged 18 to 34 said it made sense to delay a home purchase until next year. That's 10 percentage points more than the national average for all age groups.

Meanwhile, about half of the young people in the survey who had already delved into home ownership said their mortgage was eating up too much income — suggesting their peers may have good reason to wait.

A sharp rebound in housing market activity as Canada emerged from a recession in late 2009 and early 2010 has sent home prices soaring.

The national average home price rose 8.8 per cent year over year to a record $365,192 in February, although it was skewed upward by sales in the red hot Vancouver market where the average home price was $790,380.

Meanwhile, Canada's job market has taken longer to recover and income levels haven't grown at the same rate. A Bank of Montreal report released last month found average resale home prices compared with personal incomes are 14 per cent above the long-term trend.

That makes it more difficult to afford a home — as mortgage payments eat into a larger portion of Canadians' paycheques — especially those of young people who are just settling into careers and tend to have less money saved.

In addition, young people already struggling with student loan payments may be influenced by a steady stream of warnings over the past year about Canadian debt-to-income ratios reaching record highs, suggested Bernice Dunsby, RBC's director of client acquisition for home equity.

"Canadians are heeding some of the advice around larger debt levels and stretching themselves too thin so they're actually taking the time to pause and reflect and plan accordingly, especially when it comes to things like their down payment," Dunsby said.

Some young people watching home prices soar beyond pre-recession levels may be waiting for a widely predicted drop anticipated over the next year or so, said David Madani, Canada economist at Capital Economics.

"We've kind of reached a threshold in the sense that affordability is pretty tough," he said.

"If you're talking about a potential young home buyer who is living in Toronto or Vancouver or some other big market, it's really pricey to get into right now, so that's discouraging for some young home buyers."

First-time buyers account for a huge portion of all Canadian housing sales, making the demographic influential in determining the health of the country's housing market.

This year's survey, conducted by Ipsos Reid in mid-January, came at a cooling off period in the Canadian housing market following a spate of frenzied buying in the early months of last year.

There will be a drop in demand this year after a number of factors last year combined to drive buyers to jump into the market earlier than planned, Dunsby said.

Many first-time buyers rushed into the market in the first half of 2010 while the Bank of Canada's key interest rate — which influences commercial lending rates — was set at emergency lows of 0.25 per cent because of the recession.

Those changes affect a minority of mortgage holders who opt for variable rate mortgages linked to the commercial banks' prime rates.

"(However) they may look at interest rates as an indicator of when to jump into the market," said Dunsby.

Some buyers also wanted to enter the market before the new harmonized sales tax was implemented last July in Ontario and British Columbia, two of the country's largest real-estate markets.

Although the HST only applied to some services associated with a home purchase, such as lawyers' fees, some buyers thought it could push closing costs up a lot more.

First-time homebuyers are also most affected by government moves to change mortgage rules that made it more difficult to qualify for a mortgage. Stricter lending rules brought in the spring of 2010 require all homebuyers to qualify for a standard five-year, fixed-rate mortgage.

More recently, new changes enacted last month shortened the maximum amortization period for a mortgage to 30 years from 35, increasing the size of monthly mortgage payments.

Demand for homes began to wane last spring in the face of rising home prices and short-term mortgage rates, along with stricter mortgage rules and the exhaustion of pent-up demand from the recession.

That has put buyers and sellers on a more even footing when they negotiate.

"In a more balanced housing market, it makes sense that younger and first-time homebuyers are waiting to assess all of their options and do their research before buying a home," Dunsby said.

"It's also important to get expert advice on what you can afford and leave yourself with a little extra wiggle room in your budget so you don't become house poor, as home maintenance and lifestyle costs can add up."

While 43 per cent of younger Canadians told Ipsos Reid they were paying off their mortgage faster than expected, two-thirds, or 66 per cent, said their mortgages were still larger than they would like.

Rising real estate prices, along with having a large enough down payment, were the biggest concerns among young people surveyed.

Still, 43 per cent of the young adults who responded to the survey said they were looking to buy in the next two years, suggesting the housing market will continue to be healthy going forward.

That's higher than the national average of 29 per cent for all age groups.

In comparison, only 29 per cent of Canadians aged 35 to 54 said they want to buy within two years and only 17 per cent of respondents over 55 were looking.

The survey also revealed that young people have different ideas about how to seek advice on home ownership than those belonging to older generations.

[illegible] family or friends for advice while more than 70 per cent of Canadians over 45