

Affordability – Problem or Perception?

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(Originally published in BC Homes Magazine, Spring 2013)*

House prices are ridiculous –I will never be able to buy a home! Really? If you want to, you can, but you just might need to compromise.

I won't buy a home until the prices come down! They are already down, don't wait too long....

The market is going to crash, the market is going to rise, home ownership is unaffordable, renting is better than buying, stocks are a better investment than a home. Who is right?

For guidance, I look to the past. My parents grew up in Vancouver and bought their first house there in the early 1950's. They were a young married couple, both working and wanting to settle down and raise a family. So, they scrounged together a down payment by borrowing from relatives and they bought a tiny "fixer upper" for \$8,000 and started their family. They soon outgrew their shabby little home but couldn't afford something better in Vancouver so they looked further afield. They were able to really move up the home ownership ladder by looking to then rural Richmond where they purchased a brand new, split level house. That modest split level house is where my parents raised their three children. I look back on those days and compare our middle class family home with today's middle class family homes.

Our family of five grew up in a house with three bedrooms (my sister and I shared a room) and *gasp* one bathroom! The "gourmet" kitchen featured Formica counters and painted plywood cabinets. No granite counters, no dishwasher, heck – we had a wringer washing machine and clothes were dried on a clothesline! Boy, we've come a long way baby.

So, 60 years later, is it really any different? A young couple wants to buy a home in 2013. If you don't have relatives to help you out, talk to a mortgage broker or banker about your options. There are many options available: borrow the down payment; borrow from your RRSP or; buckle down and start saving more. If home ownership is something you want, then go for it!

Can you buy a house in Vancouver? Not likely, but then houses weren't affordable in Vancouver 60 years ago either. If you want to live in Vancouver, a condo is most likely your only option. However, there is a good chance that condo will come with granite counters, a dishwasher and even a washer and dryer!

Have your heart set on a brand new three bedroom home to raise the family in? Look a little further afield and you will be pleasantly surprised. Home ownership is achievable if you really want it and are willing to make some compromises.

OK, maybe I can buy but I want to wait for prices to come down.

Prices are currently well below the market high point of 2007/2008. The local construction industry is very responsive to market conditions and builders can quickly turn off the supply tap when demand softens. Thus, with no oversupply in the market and an increasing population, there is little downward pressure on prices. The US economy is improving and local construction costs are starting to rise. Lumber costs have increased more than 20% in the past year. If construction costs are rising, do you believe the finished product will get cheaper?

Maybe I shouldn't ever buy, I will rent and invest in the stock market instead. Stocks perform better than real estate in the long run.

The notion that you could be better off by renting and investing in the stock market ignores history and human nature. Real estate prices in Metro Vancouver have steadily increased over time and you have to pay to live somewhere. Yes, there are ups and downs in pricing but the long term trend is consistently up. So, think about it, if today you bought a \$500,000 home, what do you think your financial situation would be in 25 to 30 years? I am guessing that you will have paid off your mortgage and your home will be worth more than you paid for it. \$600,000? \$1,000,000? \$2,000,000? And if you rented and invested all the "extra" money in the stock market? Well, your landlord would be very happy that you paid off her mortgage and well, gee, you never really got around to investing as much as you should have in the stock market but you have \$60,000!

In the long term, home ownership yields financial rewards and also provides those wonderful intangible benefits like pride, comfort and stability.

So is real estate affordable? Well probably not as affordable as you would like it to be but you can get into the market if you really want to. I am betting that in 25 years, you will wonder how you ever could have thought that real estate was unaffordable in 2013. But how are your kids ever going to buy a house? Real estate is so expensive....



Middle class family home – 1960's



Middle class family home – 2013

(Photo courtesy of Randy Dyck, Eximus Real Estate Team)