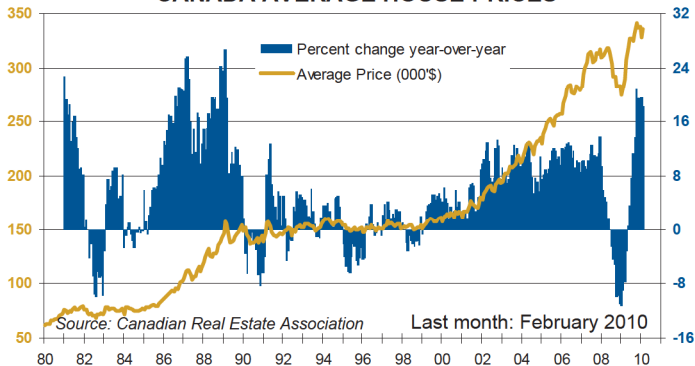


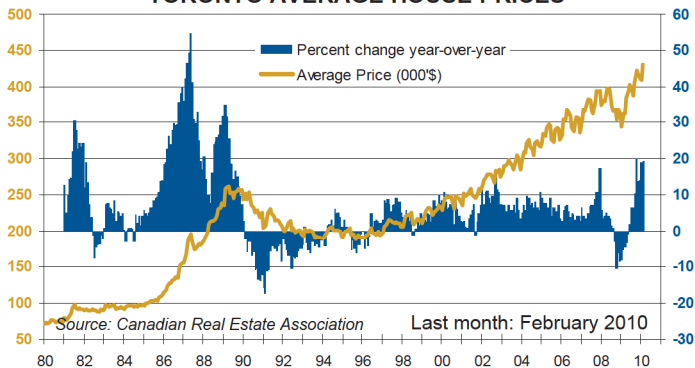
CANADIAN HOUSING PRICES

by William Tharp

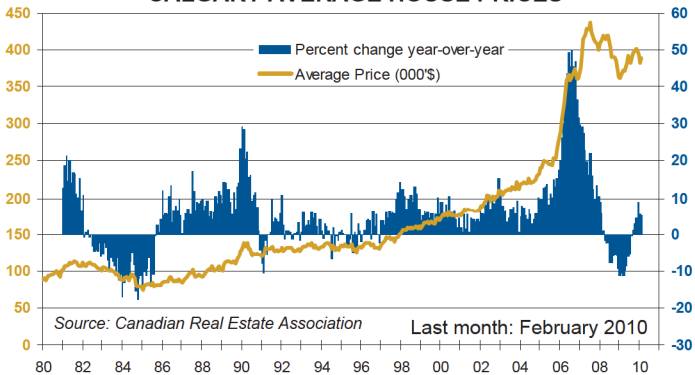
CANADA AVERAGE HOUSE PRICES



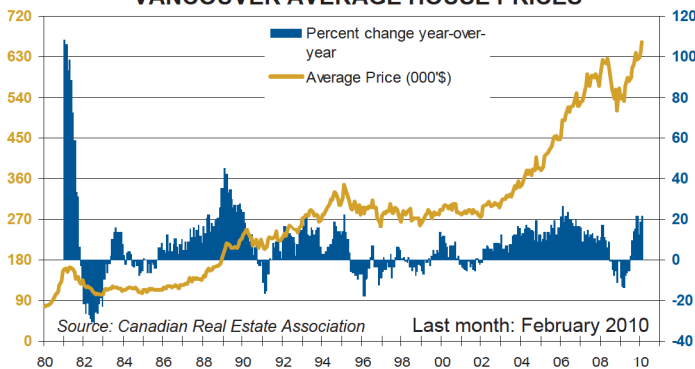
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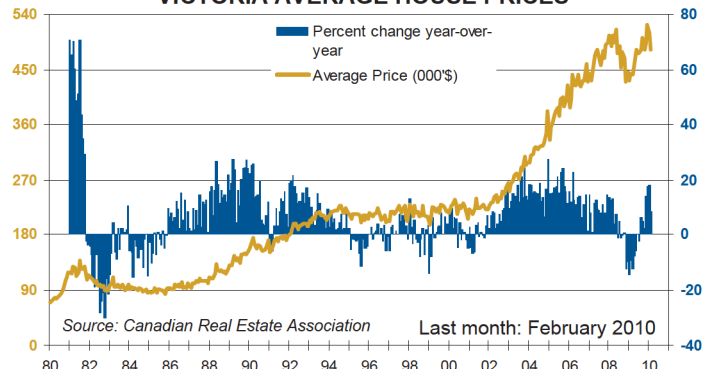
CALGARY AVERAGE HOUSE PRICES



VANCOUVER AVERAGE HOUSE PRICES



VICTORIA AVERAGE HOUSE PRICES



In most Canadian cities house prices have already rebounded beyond the peaks of 2008 (many markets have seen a dip in recent months but the data are not seasonally adjusted). Even in Alberta, where prices surged disproportionately several years ago, house prices are rising again, though they remain well below the earlier peak.

Looking ahead, the housing market can be expected to succumb to a series of unfavorable developments:

1. Mortgage rates are now starting to rise off cyclical lows. Future increases will probably fall within a range of 1.5% (for longer maturities) to 2.5% (for shorter terms). While this is not dramatic, it does add significantly to carrying costs for those close to the margin of affordability. Coupled with the surge in prices relative to income gains in recent years, this should dampen the housing market considerably.
2. Tighter lending standards, which come into effect later this month, will help cool demand as well.
3. The application of the harmonized sales tax (effective in July in the most expensive markets – Vancouver, Victoria and Toronto) will add to affordability problems.

The above factors suggest that housing demand will weaken noticeably, starting in the second half of 2010. The shift in conditions will be made all the more dramatic because buyers have been rushing into the market to avoid the three factors listed above. A weaker housing sector is likely to trim overall economic growth, starting in the second half of 2010.

Deteriorating short-term factors will merge with a weakening long term outlook for housing as well, as labour force growth and other demographic factors become increasingly less supportive in most parts of Canada over the next ten to twelve years. Buy if you need more (or less) space, but buying for investment purposes no longer looks promising.

