House prices up 10% a year since 2001

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OTTAWA — The average price of an existing home in Canada has jumped by about 10 per cent a year since 2001, new data show, with a cumulative increase of about 70 per cent during that period.

Following a period of relative price stability during much of the 1990s, average resale home prices have been climbing steadily since 1997, except for a small dip in 1998, DBRS Ltd. says in a new study of Canada's residential housing market.

DBRS also found that higher prices are helping push total mortgage debt way up, while the default rate on mortgages, as is often the case, has gone the opposite way in recent years. According to the Canadian Bankers Association, the default rate was chopped by more than half from a historical high of 0.65 per cent in January, 1997, to today's level of 0.24 per cent.

“There is an inverse relationship between housing price appreciation rates and mortgage default rates,” the DBRS report says. “An increasing property value allows home owners in financial difficulty to sell their property or obtain an equity takeout, thereby cashing in on their increased equity and avoiding a mortgage default.”

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While the broader national market has experienced strong demand in recent years, driven largely by a strong economy and low interest rates, large urban areas have seen much greater demand than other parts of the country.

In Vancouver, for example, the average housing resale price increased by about 79 per cent since 2001, an annual appreciation rate of 12 per cent. The rapid appreciation has been driven largely by strong economic fundamentals, high commodity prices, spending on the coming 2010 Winter Olympics, high labour costs, a lack of suitable land and low housing inventory.

Calgary has been one of the country's most volatile real estate markets over the last 35 years. While prices dropped by at least 25 per cent in the early 1980s, they soared by 39 per cent in 2006 as the oil boom has boosted wages and attracted thousands of migrant workers.

Toronto has seen rapidly increasing prices since the mid-1980s, fuelled by a strong economy and speculation in property markets and population growth. Montreal, meanwhile, has seen slower price hikes, as the sovereignty debate and slower population growth have suppressed demand hikes.

The DBRS study, the first in a three-part series on the mortgage market, also found that outstanding residential mortgage debt in Canada has more than doubled to $724-billion by the end of 2006 from $360-billion 10 years ago, which accounts for about two-thirds of the total Canadian household debt of $1.6-trillion. The remainder of that debt is consumer debt.

The study also found that Canadians continue to go to the country's largest financial institutions for most of their mortgages, as chartered banks account for about 60 per cent of total outstanding mortgages.

The insured mortgage market, meanwhile, continues to be dominated by two insurers: Canada Mortgage and Housing Corp. (CMHC) and Genworth Financial Canada, formerly GE Mortgage Insurance Canada. The pair

accounts for about 44 per cent of outstanding mortgages.

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