Home prices to fall, TD warns

Vancouver and Toronto to lead slowdown

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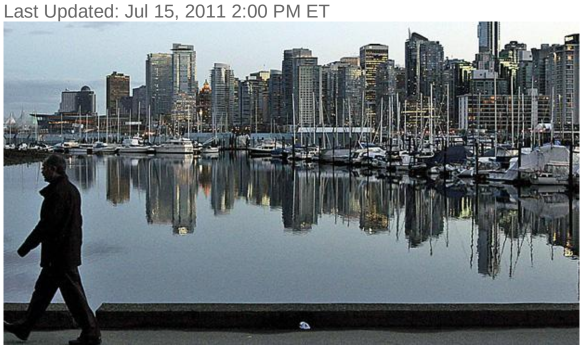

A man walks in Stanley Park as the skyline of Vancouver is reflected behind him. Vancouver's average housing price is double the national average and ripe for a correction, TD economists say. (Jae C. Hong/Associated Press)

The average price of a resale home in Canada will fall by more than 10 per cent over the next couple of years, an analysis by TD Economics predicted Wednesday.

Calling it a "moderate correction," the report's authors also say sales will decline by more than 15 per cent over the same period.

"A combination of more subdued job and household income growth, rising interest rates, the recent tightening in borrowing rules for insured mortgages and fewer first time home buyers are expected to be the chief culprits behind the slowdown," the report said.

TD economists profiled 12 urban markets across the country. They highlighted Vancouver and Toronto — currently the two most expensive housing markets in Canada — as the cities most vulnerable to a larger-than-average decline, "reflecting in part their exposure to the condominium segment, which appears particularly ripe for a correction."

No city will experience a housing boom in the near-term, the authors say. But price drops in Regina, Saint John, N.B., Halifax, Calgary and Edmonton will be less than the average — what the report calls "a soft landing."

On a national basis, the report's prediction of an average 10.2 per cent price decline translates into an average resale price of $329,000 in 2013, down $38,000 from its 2011 peak.

But the red-hot Vancouver market, where the average resale home now goes for about $793,000, the authors predict a 14.8 per cent decline by 2013 to a still lofty $675,000 — a drop of $118,000.

"Vancouver has been the poster child for those individuals worried about a real estate bubble here in Canada," the report says, with the authors pointing out that household debt levels are higher in Vancouver than in any other city.

Toronto's forecast price drop over the same period will be almost as dramatic — an 11.7 per cent cent decline to $415,000 by 2013. That's $55,000 lower than the current peak.

The authors note that sales are already off their peak. But they say the biggest drivers of housing demand are likely to remain "supportive" for the rest of 2011. The bulk of the price correction will come in 2012 and 2013, they say.

TD economists say the Bank of Canada is likely to start hiking interest rates again at the start of 2012.

With the central bank's policy rate directly tied to variable rate mortgages — which 40 per cent of current mortgage holders now have — the authors point out that a $400,000 mortgage will cost $440 a month more to service by mid-2013, assuming the Bank of Canada raises its key overnight rate from the current 1.00 per cent to 3.00 per cent by that point.

Predicted home resale price declines			
Region	**Peak price - 2011 ($'000s)**	**Trough price - 2013 ($'000s)**	**% drop**
Canada	$367	$329	-10.2%
Vancouver	$793	$675	-14.8%
Calgary	$422	$395	-6.4%
Edmonton	$332	$310	-6.6%
Saskatoon	$315	$280	-11.1%
Regina	$280	$263	-6.1%
Winnipeg	$245	$226	-7.8%
Ottawa	$360	$330	-8.3%
Toronto	$470	$415	-11.7%
Montreal	$309	$285	-7.8%
Quebec City	$245	$228	-6.9%
Halifax	$264	$248	-6.1%
Saint John, N.B.	$180	$170	-5.6%
Source: TD Economics forecast, June 2011			

*Courtesy of CBC news.