

Canadian home prices continue to rise

Canadian home prices are still on the rise even as sales fall as demand peters out, one factor that is making homes less and less affordable, according to a study by the Conference Board of Canada.

Home sales have fallen by 25 per cent since reaching a peak at the beginning of the year as fewer buyers compete and more houses come onto the market. That hasn't stopped houses from becoming more expensive, a trend that is likely to continue, said conference board associate director Michael Burt.

"Most of the costs associated with home ownership, such as mortgage costs and insurance, are outstripping inflation and income growth," said Mr. Burt, who studies industrial economic trends.

"As a result, housing affordability in Canada, which has been deteriorating over the past decade, will continue to decline during the next two years."

Canadian home prices were up 13.6 per cent in June from a year ago, according to the Teranet—National Bank composite house price index, released Wednesday. Month over month, June prices were up 1.5 per cent — the largest monthly increase since last August and the 14th straight monthly increase.

Price increases in June were driven by the bustling housing markets of Vancouver and Toronto, where many buyers entered the market in advance of the new harmonized sales tax that took effect July 1 in Ontario and British Columbia.

Recent figures from the real estate brokerage industry show July sales fell 30 per cent and prices were essentially flat.

As more resale houses come onto the market and fewer buyers compete for homes, the [housing market](#)  is at a crossroads between a balanced market and one that favours buyers.

Many economists predict the sector could move further toward a buyers market, which could be accompanied by a deceleration of price increases, if not outright price drops as seen in the United States.

Marc Pinsonneault of National Bank (TSX:NA) says home prices could soon fall, especially since the introduction of the HST in the hot housing markets of B.C. and Ontario have raised the price of many home purchases

His report on the index — a compilation of average home price changes in six metropolitan areas — suggests that it may be too early to conclude that vigorous price rises in April, May and June represent a trend.

"The prospect of harmonized sales taxes coming into effect July 1 in Ontario and B.C. may have stimulated sales in Vancouver, Toronto and Ottawa in the preceding months," the report said.

Seasonally-adjusted home sales fell 8.2 per cent in June from the month before and shrunk 19.7 per cent compared to June 2009, according to the Canadian Real Estate Association.

However, the average Canadian home price sat at \$342,662 compared to \$326,689 in 2009.

Sales activity peaked in December 2009 and hovered near record levels during the first quarter of this year as buyers rushed into the housing market ahead of changes to mortgage rules, [interest rate](#)  hikes and the HST.

Activity so far this year is up 5.6 per cent compared to the first seven months of last year, but the gap is expected to shrink as the year progresses because sales ramped up heavily during the latter part of 2009.

The strong pace of spending at the beginning of the year indicates the Canadian industry has fully recovered from the recession, and although new home construction activity is expected to slow, housing starts will remain at a healthy level, the Conference Board said in its report.

Housing starts slowed to 192,800 units in June, the slowest monthly pace this year. And home building is expected to slow during the second half of the year.

"The slowdown represents a shift to a more sustainable building pace rather than the beginning of a large correction in demand," said the Conference Board.

Many economists predict an accompanying deceleration of price increases, with some saying prices could begin to fall modestly by the end of the year.

While performance in the Canadian housing market is weakening, it is faring much better than the U.S. market, where the past three months have been the worst on record for new home sales.

Sales of new U.S. homes dropped sharply last month to the slowest pace on records going back nearly half a century, the latest sign that the economic recovery is fading.

The U.S. Commerce Department said Wednesday that new home sales fell 12.4 per cent in July from a month earlier to a seasonally adjusted annual sales pace of 276,600.