

AOTW: Housing Affordability is a Major Election Issue...are houses truly unaffordable?

August 20, 2021

Good morning,

If you're like me, you're pretty underwhelmed at the idea of an election in the dog days of summer (and perhaps early in what is hopefully our last "wave" of Covid), but alas we have been thrust into one. One of the key issues at the forefront of this campaign seems to be affordability in general, and in particular housing. We all know of those stories of a house near you that sold for \$250k over asking with 23 bids. I've made this comment numerous times to clients and friends, if you had told me a year ago we would be watching house prices soar to previously unimagined heights and the stock market setting what feels like near daily record highs, I would have questioned your mental acuity. But here we are. The question is why? How? Who is paying these crazy house price? (OK, I suppose that was multiple questions).

This week's AOTW looks at the housing market from a different standpoint than purely prices. (Link: <https://ritholtz.com/2021/08/how-expensive-are-houses/>)

"...one of the things that many people miss is that purchasing a house is a function of two main things: The home's cost, and how you finance the purchase. As my colleague, [Ben Carlson](#) noted, "While prices were far lower in the past, borrowing rates were much higher."

You might be quite surprised to find that using the average house price, a 10% down payment and the prevailing 30 year mortgage rate of the day (US data of course, we don't do 30 year mortgages in Canada), that current mortgage payments are lower than all but two five-year periods going back to 1975 (adjusted for inflation into 2021 dollars).

Coupled with a prior analysis from Mr. Ritholz a few weeks back entitled "[How Everybody Miscalculated Housing Demand](#)", perhaps it becomes less of a headscratcher as to why the residential real estate market is seemingly white hot everywhere:

"The pandemic sent everyone scrambling, but it also led to a year of lockdown forced savings (*Yay, down payments!*). EVERYONE understood the value of owning your own space. Demand soared. There were few new homes for sale and not a lot of existing homes available, either"

Ritholz' research in the latter piece regarding miscalculated housing demand goes through a decade by decade look at the driving forces behind the housing market, back to the 1980s. You'll quickly realize that the current surge in housing demand is indeed a structural problem that was decade in the making, and that the very unlikely catalyst to unlock this demand was indeed the pandemic. Folks were home, getting paid either from work of government programs, and with nowhere to

spend our money besides Amazon trinkets and groceries, the household savings rate exploded, allowing down payments to be quickly pulled together.

Interesting topic that seems to come up a lot. Enjoy the read.

Have a good weekend, hope your AC is working well...

Trevor M. Johnson, CIM, FMA

Financial Advisor & Portfolio Manager

Contego Wealth Management of Raymond James Ltd.

750-45 O'Connor Street | Ottawa, ON | K1P 1A4

☎ 613.369.4660 | Toll Free: 1.866.552.0889 | Fax: 613.369.4699

www.raymondjames.ca/contegowealthmanagement/

Personal Assistant:

Karol Phillips | Financial Advisor Associate |

☎ 613.369.4662

karol.phillips@raymondjames.ca



This may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

This newsletter has been prepared by Greg Roscoe and expresses the opinions of the author and not necessarily those of Raymond James Ltd. (RJL). Statistics and factual data and other information in this newsletter are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. This newsletter is intended for distribution only in those jurisdictions where RJL and the author are registered.

Securities-related products and services are offered through Raymond James Ltd., Member-Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a Member-Canadian Investor Protection Fund. This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to. Not intended to solicit clients currently working with a Raymond James Financial Advisor. If you would prefer not to be on our e-mailing list, please reply to this email with UNSUBSCRIBE in the subject line.