

May 26, 2010

## **U.S.-Style Home Price Correction Unlikely in Canada**

The Canadian Real Estate Association (CREA) released a new report today indicating that home prices will stabilize, and will remain stable for some time. This means that Canadian homeowners are unlikely to experience a U.S.-style decline in the value of their homes.

“The relationship between average price and income has recently been cited as portending a U.S.-style correction in Canadian home prices,” said Gregory Klump, Chief Economist, CREA. “However, such warnings ignore the longer-term relationship between prices and income, and disregard typical Canadian housing market cycle dynamics.”

Home prices tend to rise in cycles, characterized by periods of sharp growth and periods of stability. By contrast, income generally follows an orderly upward trend over time. For home prices to keep pace with incomes, they must rise faster during housing booms to make up for periods of little or no price growth. Canadian home prices were stagnant throughout most of the 1990s, while incomes continued rising, making housing more affordable. Over the past decade, home prices have climbed sharply as mortgage interest rates declined.

Klump adds: “The Canadian housing market is now widely thought to be at, or very near, the top of a cycle, and the ratio of home prices to incomes is currently high. This ratio will revert to its long-term average as it always does as part of a normal housing market cycle. History suggests, however, that it will not do so by means of a significant correction in home prices. The more likely scenario is that home prices will stabilize, giving incomes a chance to catch up again.”

The bursting of the U.S. housing market bubble has sparked fears that Canadian home prices may share a similar fate. However, according to Klump, “warnings to this effect ignore solid Canadian mortgage market trends.”

Conservative lending practices in the mortgage industry combined with prudent borrowing and accelerated payments among Canadian mortgage holders have been seen throughout the recent housing market cycle. Accelerated accumulation of home equity will provide options for the small proportion of homeowners who may face financial difficulty when their mortgage is renewed at a higher interest rate. These trends are expected to help Canada avoid a U.S.-style housing crisis.

The correction in U.S. home prices is set against a massive oversupply of homes due to distress sales, combined with a drop in housing demand due to unemployment. The unwinding of the housing boom in Canada will be more orderly, characterized by softening sales activity and stable prices.

To view the full report please visit: <http://creanews.ca/>

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**About The Canadian Real Estate Association**

The Canadian Real Estate Association (CREA) is one of Canada's largest single-industry trade associations, representing more than 99,000 real estate Brokers/agents and salespeople working through more than 100 real estate Boards and Associations.

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