The Average Home Price Is Over $700K: How Long Will it Take to Save a Down Payment for That?

Description

For a time, low mortgage rates seemed like the deal of the century. Now, 22 months after the Bank of Canada dropped its prime rate to 0.25%, we know the opposite is true: low borrowing rates led to the biggest homebuying scramble of the 21st century, pushing home prices far above affordability.

The average home price is around $720,860, according to data released by the Canadian Real Estate Association (CREA) in December. How long would it take you to save for a down payment on home that's $720,860? Let's take a look.

How long will it take you to save for a down payment on a $720,860 home?

Are you ready? This could be shocking.

For a $720,860 home, it would take you more than six years (73.8 months) to save the required down payment ($47,086), if you saved at least 10% of the median annual income ($76,518) per year.

These numbers are simply an update to a study released by the **National Bank of Canada** (NBC) in November 2021, which found that it would take around 73.6 months to save a down payment for the *then*-average home price ($719,400).

But, again, that's only for the average home price in Canada. If we look at metropolitan areas, the time it takes to save a down payment gets even more sobering.

For Toronto, where the average home price has risen to $1,163,323, you would need 26.7 years (321 months) to save the required down payment ($232,665). And in Vancouver, you need even more time: for the average home price, $1,230,200, you'll need 28.4 years (340 months) to save a $246,040 down payment.

Of course, some markets require less time. For instance, in Montreal, where the average home is going for $566,853, you'd need just over four years (48.3 months) to save a $31,685 down payment.

Again, this is assuming you're saving 10% of the median annual income. If you save more than 10% of the median annual income, you could save faster. For instance, if you saved not 10% but *30%* of the median annual income in Toronto ($86,875), you could save the required down payment in 6.68 years (80 months).

Could you pay more than this?

Yes, you could absolutely pay more than the average home price in Canada. You could pay less, true. But with the way things look, home prices might go up more in 2022.

On top of that, you have to factor in all the costs of homebuying: home inspections, closing costs, mortgage fees, moving costs, property insurance, and whatever repairs you need to make to your home.

Should you buy a home in 2022?

If this data makes your mouth drop, you have some options.

For one, you could use savings from your TFSA as your down payment. If you're a first-time homebuyer, you could also use savings from your RRSP. Just be sure you consider the opportunity cost: by withdrawing money from these accounts, you might miss out on investing gains (or cash in on investment losses, considering the stock market right now).

Another option is to *wait.* Yes, wait. In fact, given the overinflated prices of homes today, this might be the most sane option out there, even if it means dealing with high rent.

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