Down payments keep millennials on other side of home ownership fence

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The Way Home is a series looking at the challenges faced by different generations of people who are in the market for a home – from first-time buyers and growing families to baby boomers who are downsizing.

Shannon Gillespie and her boyfriend, Paul Locking, both started working when they were young: He was 14 when he began helping out at his dad's warehouse, and she was 15 when she got hired at a local rec centre to run childrens' birthday parties before moving on to lifeguarding. Now both nearing 25, they find themselves in the enviable position of getting ready to move into their first home, a townhouse in North Vancouver, B.C. They're also thanking their lucky stars.

Both savers, they lived at home during their postsecondary studies. (She's graduating this year from a program in health sciences; he works in digital animation.) Doing so allowed them to sock away earnings from part-time and summer jobs, money they put toward a down payment on their 15-year-old, three-bedroom unit. They also had financial help from their grandparents. Without it, they have no doubt that they'd be renting.

"There's no way without their support we could have done this," Ms. Gillespie says. "We really lucked out."

And in a sizzling market like Greater Vancouver's, where it's not uncommon for homes to be selling for hundreds of thousands of dollars above the asking price, the two feel especially fortunate.

"I would have loved a house, but it was out of the question," says Mr. Locking. "My dad was nice enough to let me stay [at home] a little longer and save my money. I still can't believe it myself."

Ms. Gillespie and Mr. Locking are an increasingly rare breed: a young couple living in an overheated market who can scrape together enough money for a down payment for something larger than a so-called "junior one-bedroom" condo (read: studio apartment). Across the country, it's getting harder for people to reach that goal.

The statistics are distressing. In 1974, a typical 25- to 34-year-old had to work for five years to put a 20-per-cent down payment on an average home in Canada. Now it's 12 years, on average. In the Greater Toronto Area, it's 15 years; in British Columbia it's 16 years; in Vancouver and area it's a staggering 23 years.

That's according to research headed by Paul Kershaw, an associate professor at the University of British Columbia's school of population and public health. He's also the founder of Generation Squeeze, an organization that lobbies for Canadians in their 20s, 30s and 40s and that's gaining momentum as a campaign.

The way Mr. Kershaw sees it, here's the problem: As younger Canadians finish school, begin careers, look for homes, and start families, they are squeezed by stagnant incomes, sky-high costs, less time and mounting debts and a deteriorating environment. No wonder saving for a down payment is difficult.

"We earn thousands less for full-time work than a same-aged person a generation ago," he says. "We're more than twice as likely to have postsecondary [education] so we've delayed starting our careers. We've put in more time to be better educated only to land jobs that pay less and that less often have pensions and other benefits. Then after working so much harder as young adults to take jobs that pay less, we get to spend hundreds of thousands of dollars more for the privilege to live in an average home, and often these days average homes are smaller – they're apartments with balconies, not homes with a backyard. … Wow, that's a big deterioration in the standard of living for younger Canadians."

In 1976, the average cost of a house in Canada, adjusted to 2013 dollars, was $202,794. In 2013, it was $382,513, but significantly more in major cities such as Vancouver and Toronto.

The same housing costs that are squeezing young people out are the same ones that made older generations wealthy. For Canadians between the ages of 55 and 64, the net wealth in housing is $165,000 more than their peers four decades earlier. Meanwhile, home ownership among Canadians under age 44 has fallen in the past four decades.

Mr. Kershaw's research points to the need for more government support in areas such as affordable child care and student-debt reduction; by helping bring those costs down, more Canadians may be able to make the leap to home ownership. But even if those types of policies were implemented, it would take years, if not decades, for any tangible effects to be felt.

In the meantime, those hoping to have a home one day need to know exactly where they stand financially today and what they can actually afford, says Vancouver certified financial planner Alison Stafford of Money Coaches Canada.

"What do you have in your whole life for expenses, not just housing costs but what you spend on vacations, activities, fees, memberships – everything," Ms. Stafford says. "That way when you plug in a new number for a home, including things like strata fees, property taxes, property insurance, you'll have a really clear picture of what your costs are going to be.

"If you have lines of credit or credit cards with high-interest debt, tidy that up as much as possible," she says. "You don't want to end up steamrolling yourself into a stress situation."

Ms. Stafford recently purchased her own place herself, a two-bedroom-plus-den condo in Burnaby, B.C., using savings and borrowing from her registered retirement savings plan through the federal government's Home Buyers' Plan. She says it's crucial for people to determine their ceiling in terms of price so they don't get carried away at open houses by, say, those fancy faucets and kitchen islands that can bump up a unit's price. And remember to factor an increase in interest rates into your budget – at some point, today's low rates will go up.

"You don't want to compromise your life where you can't go out for dinner once in a while," she says, recommending a Plan B if you don't find a home you like that's within your price range. For millennials, that may mean renting for another year or staying at home longer."

Opening up a line of credit or applying for a loan are not options she would suggest for coming up with a down payment.

"I don't recommend borrowing, unless you know you have a big lump sum coming – maybe you're going to inherit some money or you have a bonus at work – and can pay it back and knew it was just for the short term," Ms. Stafford says. "Otherwise I wouldn't recommend somebody do that."

Then there are steps people can take to build up a down payment. Once your Canada Pension Plan and Employment Insurance deductions stop each year, take that money and put it straight into a vehicle such as a tax-free savings account. Do the same if you get a tax refund or a bonus. Taking on extra work and cutting back on expenses are other things to consider to build up a lump sum.

Other obvious ways around the affordability issue are to look to the suburbs, for a smaller place, or one that doesn't come with the tantalizing stainless steel appliances and granite countertops.

"It may not be your ideal, forever home, but maybe you get something smaller and build up some equity there, then move forward; that's a longer-term plan," Ms. Stafford says. "You also have to look at what other wishes are in your life. If you can't go on vacation next year [because of your mortgage payments], you need to think about that. You are the architect of your spending and savings.

"If it's really, really a goal to own and you're dedicated, it may take some creativity and some compromise," she adds. "But if it doesn't feel right it's okay to take a step back. Some people are choosing to rent. They're still saving but they're not putting themselves in a place where they're not going to be able to sustain a happy life."