

Canadian Structured Finance Newsletter

Volume 2, Issue 5, May 31, 2010



Andrew Fitzpatrick
Assistant Vice
President
+1 416 597 7377
afitzpatrick@dbrs.com

Jireh Wong
Senior Vice President
+1 416 597 7312
jwong@dbrs.com

Jamie Feehely
Managing Director
+1 416 597 7312
jfeehely@dbrs.com

Jerry Marriott
Managing Director
+1 416 597 7358
jmarriott@dbrs.com

Toronto
DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York
140 Broadway, 35th
Floor
New York, NY 10005
+1 212 806 3277

Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

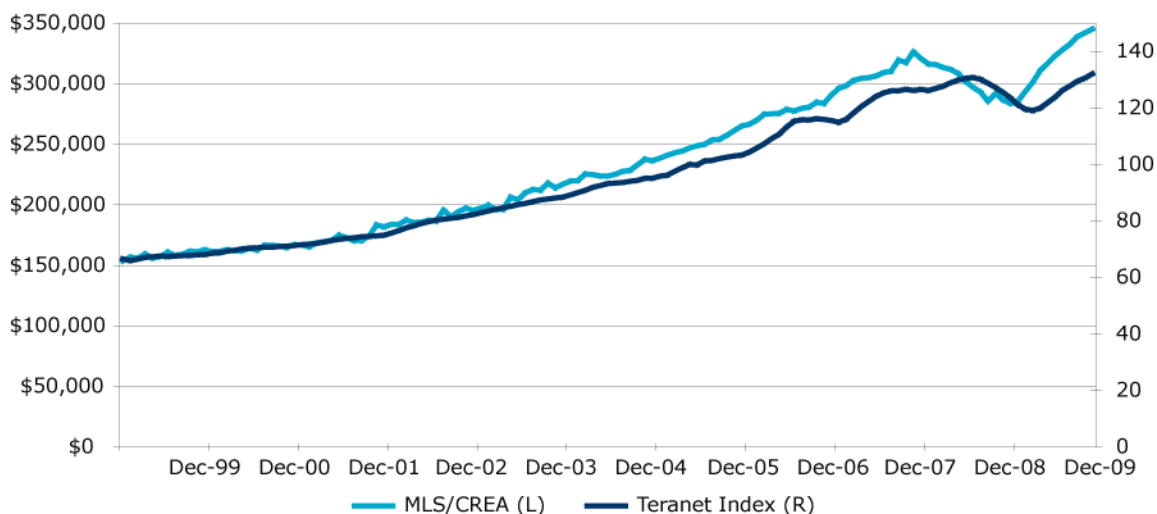
Nickey Edwards
Publisher
+1 416 597 7332
nedwards@dbrs.com

RENOVATIONS UNDERWAY: HOUSING MARKETS, RESIDENTIAL MORTGAGES AND HOUSEHOLD LEVERAGE IN CANADA

On May 28, 2010, DBRS released *Renovations Underway: Housing Markets, Residential Mortgages and Household Leverage in Canada*, a comprehensive study of the Canadian housing and residential mortgage market. Originally published in May 2007 and covering the residential mortgage market in Canada from 1997 to 2006, the study has been updated and expanded with insight into the general housing and residential mortgage markets and household leverage in Canada between 2000 and 2009. The study describes how the Canadian mortgage market weathered the recent finance storm and notes that mortgage lending grew steadily over the past decade, reaching \$958.8 billion at the end of 2009, more than double the \$414.1 billion ten years ago. Including home equity lines of credit, mortgage-related credit outstanding at the end of last year was greater than \$1 trillion.

While noting the stability of the sector during the financial crisis, the study raises potential issues with respect to the level of household debt and property values, which are both growing at a more rapid pace than household income. Between 2000 and 2009, residential properties in Canada appreciated in the range of 93.9% (according to the Teranet – National Bank House Price Index) to 112.0% (according to Multiple Listing Service (MLS) and the Canadian Real Estate Association (CREA)).

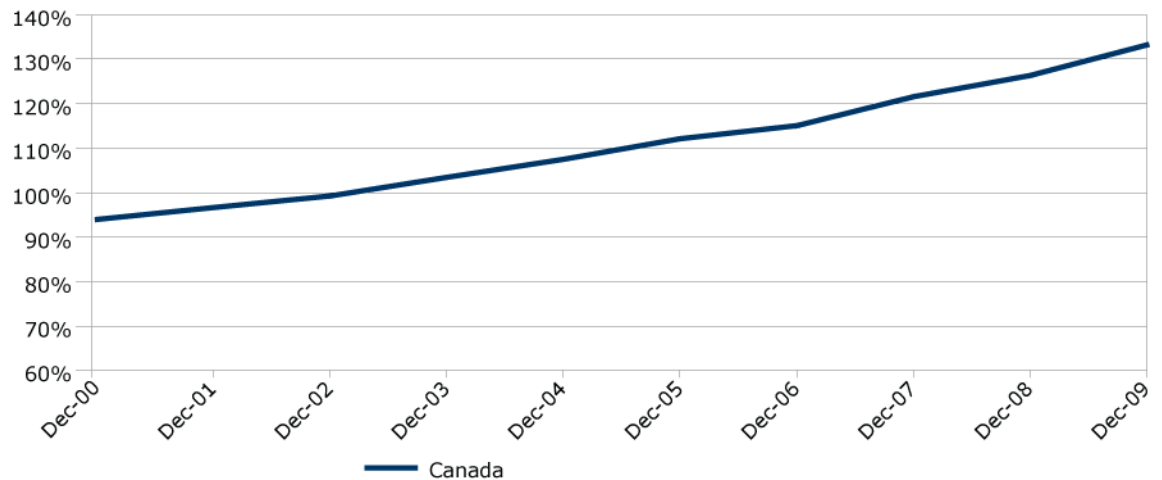
Canada – Average Resale Price and Index



Source: DBRS, Multiple Listing Service and the Canadian Real Estate Association (MLS/CREA) and Teranet Index.

Over the same period, Canadian households increased their debt loads much faster than total personal disposable income. Consequently, the ratio of total household debt (excluding bank loans and trade receivables)-to-total personal disposable income reached 133.2% at the end of 2009 compared with 96.5% a decade ago. This is the highest level in Canadian history.

Canadian Household Debt-to-Personal Disposable Income



Source: DBRS and Statistics Canada.

The study also takes a look at housing price trends in six large cities across Canada. Despite corrections during the recent financial crisis, most markets have rebounded above pre-financial crisis levels. Average housing price-to-income ratios in Canada are now estimated to be more than 30% above historical averages. DBRS expects a reversion to the norm will occur, but the timing and speed of that reversion will dictate the magnitude of the impact on the housing and mortgage markets.

If you would like to obtain a copy of the full report, please contact us at info@dbrs.com.

For more information, please contact Andrew Fitzpatrick at afitzpatrick@dbrs.com.

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON www.dbrs.com. Please refer to www.dbrs.com for DBRS's [Privacy Policy](#), [Disclaimers](#), [Proprietary Rights](#), [Terms and Conditions of Use](#). To stop receiving these mailings, please send an email to csf-unsubscribe@news2.dbrs.info with 'unsubscribe' in the subject line.