



BMO Fall Home Buying Report: Two Percentage Point Rise in Interest Rates Would Strain Affordability for Majority of Home-Buyers

- One-quarter would be stretched to afford a home in their current price range, while another one-third would need to consider less expensive options

- Sensitivity to rates magnified in high-priced west coast market

- According to BMO Economics, prices in major markets of Calgary, Toronto, and Vancouver are rising faster than average family income

- BMO recommends buyers stress-test their mortgage against a higher rate to ensure long-term affordability

TORONTO, ONTARIO--(Marketwired - Oct. 20, 2014) - The majority of Canadians currently in the market for a home would be forced to change their buying plans in the event of a two percentage point rise in interest rates, according to survey results in a BMO Home Buying Report released today.

The survey, conducted by Pollara, examined how potential home buyers would cope if interest rates increased, and revealed:

- A two percentage point rise in interest rates would strain affordability for two-thirds (67 per cent) of potential home buyers
- One-quarter (24 per cent) would be stretched to afford a home in their current price range, but would not reduce their budget
- Thirty per cent would be forced to reduce their price range and settle for a less expensive home; while another 13 per cent would be priced out of the market
- One-third (33 per cent) would not be affected by an increase of two percentage points

"Gauging the stability of your mortgage by stress-testing it against a higher interest rate is key to making a responsible and informed home buying decision," said Laura Parsons, Mortgage Expert, BMO Bank of Montreal. "Many buyers, especially in larger cities, need to evaluate different circumstances, and the likelihood of being able to afford their purchase long term."

The effect of a rise in interest rates is more pronounced in Vancouver, where 22 per cent of potential buyers would be forced to leave the housing market - nearly twice the national percentage. However, buyers in Calgary would feel the pinch the least, with 9 per cent cancelling their home-buying plans as a result of rising rates.

According to BMO Economics, although the national level of sales is near four year highs, the seemingly calm exterior on sales and prices masks a deepening divide between booming prices in three major cities and lacklustre activity in much of the rest of the country.

"Prices in the three hottest cities - Calgary, Toronto, and Vancouver - are rising faster than family income, further straining affordability," said Sal Guatieri, Senior Economist, BMO Bank of Montreal. "The continued rapid price gains in these cities will increase their vulnerability to a shock-whether economic, interest rate, or otherwise."

Regional and City Breakdown

	Region						
	National	ATL	QC	ON	MB/SK	AB	BC
Increased interest rates would strain affordability	67%	60%	73%	66%	68%	65%	67%

	Major Markets			
	National	GTA	GVA	Cal
Increased interest rates would strain affordability	67%	66%	74%	58%

The BMO Fall Home-Buying Survey which was conducted by Pollara between September 10th and 15th, 2014, with an online sample of 1,005 adult Canadians, who are likely to purchase a new home within the next five years. Data has been weighted using past home buyer research to be representative in terms of age, gender and region. The margin of error for a probability sample size of 1,005 is $\pm 3.1\%$, 19 times out of 20.

About BMO Financial Group

Established in 1817 as Bank of Montreal, BMO Financial Group is a highly diversified financial services organization based in North America. The bank offers a broad range of retail banking, wealth management and investment banking products and services to more than 12 million customers. BMO Financial Group had more than \$586 billion in total assets and approximately 47,000 employees at July 31, 2014.

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