Can you afford to buy a home?

Categories : Housing costs, Rebate Blog

It's a question many homebuyers need to ask themselves before diving into home ownership. Whether you're buying the property as an investment, in which case you'll need to figure out how much you can rent it out for, or buying the property as a place to live, your first step is to figure out how much house you can afford.

Many homebuyers looking for a place to live are likely wondering, when is the right time to enter the market. For anyone who bought a home during Q2 of 2014, they chose a good time to purchase since affordability improved, mostly thanks to dropping mortgage rates, according to the RBC's recent Housing Trends and Affordability Report. But affordability hasn't changed much over the past year, but with rising rates expected by 2015, the situation would worsen then.

The RBC report looks at the affordability of different types of homes based on a household's monthly gross income compared to housing costs. If a family wanted to purchase a two-storey home, it would cost them an average of 48 per cent of their income. If they wanted a detached bungalow, it would cost them 42.5 per cent of their income and if they wanted a condo, it would cost them 27.4 per cent of their income.

Of course, affordability differs in each province with buying a home being more difficult in some provinces compared to others. Homebuyers in British Columbia may have a difficult time buying a two-storey home or a detached bungalow with that type of property requiring about 72 per cent and 67 per cent, respectively. of a family's household income. While buying a home in the Atlantic region is much more inexpensive with a two-storey home and a detached bungalow having affordability levels of 34.5 per cent and 29.7 per cent, respectively.

But the first step before shopping for a home is determining your gross debt service (GDS) ratio and your total debt service (TDS) ratio.

Both of these calculations compare household income to the debt you have. Your GDS should not be greater than 30 to 32 per cent, which means the amount of housing costs, which includes your mortgage, property taxes, utilities and condo fees, should not account for more than one third of your income before tax. While your TDS should not be more than 37 to 40 per cent, but this ratio also includes your housing costs, along with any other debt, such as student loans, credit card debt, a line of credit or a car loan.

First-time homebuyers have upped their real estate budgets and homebuyers need to make sure they don't lose their heads during a bidding war.

Housing is expensive and if you're buying a newly built home, it's in your best interest to claim an HST rebate from the CRA. Rebate4U can help you receive the most HST housing rebate that you’re eligible for. Our priority is to provide our clients with the most professional and quality service in obtaining rebates for their new and renovated homes. We are proud to offer our clients the most personal and attentive service, and we make sure that all of our clients are 100% satisfied.