



B.C.'s housing affordability tests the limits: RBC Economics

TORONTO, September 27, 2010 — Housing affordability deteriorated further in British Columbia in the second quarter of this year and the very high cost of homeownership in the province tested the limits of household budgets, according to the latest housing report released today by RBC Economics Research.

“While home prices in B.C. have come under downward pressure recently with housing market activity sinking since the start of this year, higher mortgage rates in the second quarter boosted monthly mortgage servicing charges,” said Robert Hogue, senior economist, RBC. “The province’s elevated property values relative to income amplified the effects that movements in mortgage rates have on affordability.”

The report found that rapid increases in B.C.’s homeownership costs are quickly nearing the all-time highs that prevailed in early 2008. RBC notes that in the second quarter, affordability measures rose between 1.1 and 2.5 percentage points, representing some of the most significant deterioration in Canada. Poor affordability is likely to restrain demand for housing in the period ahead.

The RBC Housing Affordability Measures for B.C., which capture the province’s proportion of pre-tax household income needed to service the costs of owning a home, rose across all housing types in the second quarter of 2010. The measure for the benchmark detached bungalow moved up to 63.8 per cent (a rise of 1.7 percentage points over the previous quarter), the standard townhouse to 47.7 per cent (up 1.1 of a percentage point), the standard condominium to 34.6 per cent (up 1.1 percentage points) and the standard two-storey home to 71.2 per cent (up 2.5 percentage points).

“While we generally dismiss talk of a Canadian housing bubble, the high-flying Vancouver market is probably the closest area to one in the country with very poor affordability likely playing a role in the steep drop in the resale market since the start for the year,” said Hogue. “Nonetheless, even though the Vancouver market is clearly vulnerable to a price correction, this does not imply that a collapse is imminent because existing and new home supply is well contained at this point.”

According to the report, already extremely poor affordability in Vancouver deteriorated once more in the second quarter. RBC measures climbed 1.7 to 2.9 percentage points and have reached levels that are rapidly closing in on all-time highs.

Ontario and B.C. saw the most significant deterioration in affordability in the second quarter; however, some improvements in specific housing types occurred in Alberta (condominiums) and Saskatchewan (townhouses). All other provinces showed modest erosion, with the exception of two-storey homes in Manitoba where the rise in the RBC measure was quite substantial.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 74.0 per cent (up 1.7 percentage points from the last quarter), Toronto 50.2 per cent (up 2.4 percentage points), Montreal 43.2 per cent (up 1.8 percentage points), Ottawa 41.2 per cent (up 3.6 percentage points), Calgary 39.2 per cent (up 0.9 percentage point) and Edmonton 34.7 (up 2.5 percentage points).

The RBC Housing Affordability Measure, which has been compiled since 1985, is based on the costs of owning a detached bungalow, a reasonable property benchmark for the housing market. Alternative housing types are also presented including a standard two-storey home, a standard townhouse and a standard condominium. The higher the reading, the more costly it is to afford a home. For example, an affordability reading of 50 per cent means that homeownership costs, including mortgage payments, utilities and property taxes, take up 50 per cent of a typical household's monthly pre-tax income.

Highlights from across Canada:

- **Alberta:** Affordability measures have improved in Alberta since early 2008 as a result of lacklustre housing market conditions. The second quarter saw a mixed picture with prices easing slightly for condominiums but rising in all other categories. RBC notes that affordability measures are at or below their long-term averages, implying little downside risk to the market and boding well for a strengthening in housing demand once the provincial job market shows more substantial gains.
- **Saskatchewan:** Rising mortgage rates during the quarter caused further deterioration in affordability for most housing types in the province. With the sole exception of townhouses edging lower, increases in affordability measures pushed levels further above long-term averages, indicating that some tensions may be building. RBC expects a strong rebound in the provincial economy this year and next which is likely to help ease such tensions.

- **Manitoba:** Sellers kept a firm hand on pricing by reducing the supply of homes available for sale in the province, resulting in home prices continuing to appreciate, particularly for two-storey homes, which is translating into further deterioration of housing affordability. Homebuyers are feeling more pressure with affordability measures standing close to long-term averages.
- **Ontario:** After setting new record highs this past winter, home resales in the province have since fallen precipitously due to a number of factors including the HST, changes in mortgage lending rules and the rush of first-time homebuyers to lock in low mortgage rates. Housing affordability in Ontario continues to reverse the considerable improvements achieved in late-2008 and early-2009 with measures increasing for a fourth consecutive time in the second quarter, representing some of the largest increases among the provinces.
- **Quebec:** Quebec's record-breaking housing market rally proved to be unsustainable in the second quarter with resale activity settling to a pace comparable to levels witnessed in 2006-2007, which were considered to be fairly vigorous at the time. Affordability was hampered by home prices trending upward with RBC affordability measures now at or very close to the pre-downturn peaks and exceeding their long-term averages. Further increases in homeownership costs could have a more visibly adverse effect on housing demand.
- **Atlantic Canada:** The East Coast housing market was not immune to the significant downturn in activity that swept across the country since spring with housing resales falling back across the region to the lows reached during late-2008 and early-2009. Cooling demand loosened up market conditions, restraining home price increases and limiting the rise in affordability measures which remain very close to long-term averages. Overall, housing affordability in Atlantic Canada remains attractive and signals little undue stress at this point.

The full RBC Housing Affordability report is available online, as of 8 a.m. E.D.T. today at www.rbc.com/economics/market/pdf/house.pdf.

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