



NEWS

B.C. HOUSING MARKET MOST UNAFFORDABLE ON RECORD, BUT IMPROVEMENTS IN STORE, SAYS RBC

TORONTO, March 14, 2008 — British Columbia's affordability conditions deteriorated across every housing segment at the end of 2007, and the province remained the least affordable province in Canada to purchase a home, according to the latest housing report released today by RBC Economics.

"The housing market in B.C. sits at its most stressed point on record in terms of affordability conditions. Two-storey homes have carried the brunt of the deterioration as the hot Vancouver market remains in deeply-stressed territory," said Derek Holt, assistant chief economist, RBC. "However, we believe B.C.'s housing market is poised for some affordability relief in 2008 as cooler price gains and lower interest rates push through."

The RBC Affordability measure for British Columbia, which captures the proportion of pretax household income needed to service the costs of owning a home, deteriorated across all housing segments as the detached bungalow moved to 68.5 per cent, the standard townhouse to 52 per cent, the standard condo to 37 per cent, and the standard two-story home to 74 per cent.

There are several key fundamentals indicating a gradual re-balancing of the province's housing market. The sales-to-new listings ratio is declining and five-year fixed mortgage rates are expected to drift approximately 75 basis points lower than current levels.

Although house price growth picked up at the end of 2007, the province's weakening economy is expected to dampen demand for existing homes and push house price gains to approximately seven per cent this year, down from 12 per cent in 2007.

In Vancouver, the pace of rising housing prices continues to pressure affordability conditions across the market. The sharp erosion in the city's housing conditions will start to filter through the resale market in 2008, slowing the pace of housing activity. The new home market continues to be driven by sales in condos and townhouses – which soared by more than 45 per cent in February. Despite the surge, housing starts should begin to moderate in 2008. A general weakening in Vancouver's economy will affect job and income growth, and as a result, will also weigh heavily on the housing sector going forward.

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“Two-storey homes are driving most of the affordability erosion in Vancouver. The average selling price is close to \$650,000, which is 35 per cent above the average price for a comparable home in Toronto,” noted Holt.

The report also presents a comparison of Canadian and U.S. household finances, and shows that Americans are still modestly richer, but much more heavily leveraged and further in debt with less liquidity. That, in turn, makes them more vulnerable to ongoing credit market turmoil and risks towards house prices than Canadians. In fact, the sharp depreciation in the U.S. dollar over the past six years has made Canadians relatively richer over time, by raising the value of what their wealth will buy in world markets compared to that of their American counterparts.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the country, including Victoria. For these smaller cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

RBC’s Affordability measure for a detached bungalow for Canada’s largest cities is as follows: Vancouver 74 per cent, Toronto 47 per cent, Calgary 42 per cent, Montreal 37 per cent and Ottawa 32 per cent.

The Housing Affordability measure, which RBC has 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 condo. 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:** At the end of 2007, the province witnessed broad-based affordability improvements across all housing segments for the first time in over three years. Rapidly cooling prices put the province on watch, but should result in improved affordability for 2008.
- **Saskatchewan:** Saskatchewan has become the new Alberta. Constraints in the existing home market have pushed into overflowing demand in the new home market. As the national leader for growth in housing starts, house prices, residential building permits, and resale activity, the province saw substantial erosion in affordability in 2007. In 2008, affordability conditions should gradually stabilize.

- **Manitoba:** Housing markets across the province continue to heat up. Resale markets continue to drive strong price gains, but as household income continues to grow at the third-fastest rate in the country, affordability conditions remain steady.
- **Ontario:** Even though housing affordability deteriorated across all housing segments, the pace has slowed. The province should see improvements in 2008 from a cooling economy, lower mortgage rates, and softer price gains.
- **Quebec:** A generally balanced market has helped keep housing affordability in check. In 2008, a slower pace of house price gains and softer income growth should contribute to improved affordability conditions.
- **Atlantic region:** Affordability continued to erode in the final quarter of 2007. A combination of income growth, moderate house price gains and anticipated mortgage rate relief across all home segments should improve affordability in 2008.

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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