



BRITISH COLUMBIA'S HOUSING AFFORDABILITY NOTABLY IMPROVED BUT STILL HAS FAR TO GO, SAYS RBC

TORONTO, April 16, 2009 — British Columbia's housing markets are in the middle of a significant correction that is partly reversing the extensive gains of recent years and which is helping restore affordability conditions, according to the latest housing report released today by RBC Economics.

"The province's housing markets remain under heavy downward pressure," said Robert Hogue, senior economist, RBC. "While housing affordability is improving as the correction process runs its course. RBC's affordability measures for the province are still at levels far off historical averages."

RBC notes that the sharp rise in unemployment since last summer is worrying households in the province and weighing down demand for housing, which runs well short of available supply. Such weak market conditions have sustained the declining trend in prices for both existing and new homes.

The RBC Affordability measure for British Columbia, which captures the proportion of pre-tax household income needed to service the costs of owning a home, improved across all housing segments in the last quarter of 2008. Affordability of detached bungalows in the province moved to 66 per cent, the standard townhouse to 52.5 per cent, the standard condo to 36.7 per cent, and the standard two-story home to 73.7 per cent.

According to the report, there are signs that the B.C. housing markets may be stabilizing as sales of existing homes appear to have bottomed out in the closing months of 2008 and the first two in 2009 – although at historically depressed levels.

Despite sharply declining house prices and lower mortgage rates, the cost of homeownership in Vancouver is still the highest in the country. House prices continue to rapidly decline and pricing power remains firmly in the hands of buyers with the sales-to-new listings ratio at historical lows. "This enormous imbalance suggests that prices will likely further correct in the months ahead," added Hogue.

RBC's Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 70.3 per cent, Toronto 51.3 per cent, Calgary 42.7 per cent,

Ottawa 42.7 and Montreal 39.4 per cent.

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

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 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:** Since last fall, the declining Alberta economy has intensified the downdraft on the province's housing markets, causing home resales to drop to a 12-year low at the end of 2008 and rebound only modestly since. Affordability has been on an improving track since about the middle of 2007.
- **Saskatchewan:** Market activity has cooled considerably from the frenzied pace from 2006 to early 2008 and prices have begun to decline. Nonetheless, economic and demographic fundamentals are still largely supportive of the housing market and overshadow extremely poor affordability levels.
- **Manitoba:** Manitoba's housing markets have fared much better than the vast majority in Canada: resale activity has slowed moderately and prices have either held their own or edged down just slightly. Affordability has been kept out of the danger zone, helping to minimize any downside risks.
- **Ontario:** With the recession pounding many communities, housing market conditions have deteriorated considerably. However, the impact is unlikely to develop into an all-out rout similar to that of the early 1990s. Affordability, while still causing some stress, is quickly being restored to levels closer to long-term averages.
- **Quebec:** The province's housing markets have been among the last in Canada to yield to the weakening trend. The main sign of cooling thus far has been a drop in resale activity, as prices have held up reasonably well. Some of the persisting market strength can be ascribed to sensible affordability levels, which had eroded only modestly in recent years.

- **Atlantic region:** Markets have largely remained stable against the general housing downturn, with St. John's becoming the housing hot spot in Canada and Halifax and Saint John maintaining steady upward price momentum. The region is benefiting from improving affordability following two years of deterioration.

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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