



BRITISH COLUMBIA'S HOUSING AFFORDABILITY UNDER PRESSURE IN Q3: RBC ECONOMICS

TORONTO, November 26, 2014 — Housing affordability levels in British Columbia came under pressure once again in the third quarter of 2014, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

Affordability continues to compare poorly against both historical norms in the province and elsewhere in the country, although this largely reflects the extreme conditions prevailing in Vancouver.

The report notes that despite deterioration in affordability, overall home resales in the province were robust in the third quarter, posting a solid 4.0 per cent increase, further adding to an even stronger 10.4 per cent advance in the second quarter.

“British Columbia’s housing market was quite active in Q3 with resales moving above the 10-year average levels for the first time since the end of 2009,” said Craig Wright, senior vice-president and chief economist, RBC. “And this vigour was fairly broadly based, as Vancouver accounted for only one-third of the increase in quarterly sales in the past year.”

RBC says that home prices are picking up across the province, but that the pace of increase remains generally subdued outside the Vancouver area market. Amid this broad market strength, housing affordability has come under pressure once again in Q3.

The RBC housing affordability measures, which capture the province’s proportion of pre-tax household income needed to service the costs of owning a home at market values, rose for all housing types in the third quarter of 2014 (an increase in the measure represents deterioration in affordability).

RBC’s affordability measures showed the most significant increase for detached bungalows, rising 1.0 percentage points to 68.2 per cent in Q3. The other measures increased by 0.2 percentage points for standard two-storey homes to 72.4 per cent and by 0.3 percentage points to 33 per cent for condo apartments.

Severely strained affordability conditions a long-standing reality in Vancouver

Severely strained affordability conditions have been a reality for nearly a decade now in the Vancouver-area market. Despite this, homebuyers do not appear to be sitting on the fence in any substantial way. RBC notes that Vancouver-area home resales rose above the 10-year average for the first time since early-2011 in Q3, fully reversing the material drop that took place during 2011 and 2012.

“High levels of home resales in Vancouver led to faster property appreciation and increased pressure on already poor affordability conditions in the area,” said Craig Wright. “The effect of rising home prices on affordability was offset earlier this year by declines in fixed mortgage rates. However, these rates remained static during Q3 and offered no such counteracting force to stronger prices in the latest period.”

RBC's measures for Vancouver increased by 1.6 percentage points to 83.6 per cent for bungalows and 0.4 percentage points to 85.6 per cent for two-storey homes. Condos increased by 0.6 percentage points to 39.7 per cent, coming off of three straight quarters of declines.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities in the third quarter of 2014 is as follows: Vancouver 83.6 (up 1.6 percentage points from the previous quarter); Toronto 56.3 (up 0.3 percentage points); Montreal 37.0 (down 0.3 percentage points); Ottawa 35.7 (down 0.3 percentage points); Calgary 34.2 (up 0.6 percentage points); Edmonton 31.9 (up 0.2 percentage points).

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

It is important to note that RBC's measure is designed to gauge ownership costs associated with buying a home at present market values. It is not a representation of the actual costs incurred by current owners, the vast majority of whom have bought in the past at significantly different values than those prevailing in the latest period.

Highlights from across Canada:

Alberta: affordability remains relatively attractive

- As a share of household income, ownership costs are fairly low in Alberta – compared to both long-term and national averages. RBC's third quarter measures for the province climbed by 0.4 percentage points for both bungalows and two-storey homes. The measure for condos eased by 0.2 percentage point, and stands at the lowest level among the provinces.

Saskatchewan: prices decline and affordability improves

- Price declines in the province contributed to a significant improvement in affordability in Q3, especially for bungalows. RBC's measures fell 1.3 percentage points for bungalows (the largest decline in the country), and by 0.4 percentage points for both two-storey homes and condos.

Manitoba: housing largely becomes more affordable

- Affordability conditions largely improved in Q3 in the province, much as it has been the case since the middle of 2013. RBC's measures for bungalows and condos fell by 0.4 percentage points and 0.2 percentage points, respectively. The measure for two-storey homes rose by 0.2 percentage points.

Ontario: affordability remains moderately strained

- Homebuyers in the province benefited from some modest improvement in affordability, though it still remains relatively strained – mostly in the Toronto area. RBC's measures edged lower between 0.1 percentage points and 0.4 percentage points across housing categories.

Quebec: most attractive affordability levels in years

- Housing affordability continued to improve for the most part in the province, reaching the most attractive levels in years. In Q3, RBC's measures eased by 0.8 percentage points for condos and 0.4 percentage points for two-storey homes. The measure for bungalows remained unchanged.

Atlantic Canada: affordability conditions remain generally favourable

- Homebuyers in the region are benefitting from generally favourable affordability conditions. RBC's measure for bungalows eased by 0.3 percentage points and edged slightly higher by 0.1 percentage points and 0.2 percentage points for two-storey homes and condos, respectively. Measures for the region remain among the lowest in the country.

The full RBC Housing Trends and Affordability report is available [online](#) as of 8 a.m. ET today.

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