



B.C. HOUSING AFFORDABILITY EASES SLIGHTLY: RBC ECONOMICS

Homeownership costs remain highest in country

TORONTO, March 7, 2012 — Despite registering the country's most significant reductions in home ownership costs in the final stretch of 2011, British Columbia's housing market remained the priciest in Canada, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

“Steady job creation, which spurred income gains and a further reversal of earlier significant spikes in home prices, alleviated a small amount of pressure on homebuyers in the province, but just barely,” explained Robert Hogue, senior economist, RBC. “The housing affordability picture in B.C. remains quite poor due mainly to sky-high prices in the Vancouver area and we expect this will continue to weigh on housing demand in the coming year.”

RBC's housing measures capture the province's proportion of pre-tax household income that would be needed to service the costs of owning a home at market values. In the fourth quarter, measures for B.C. declined across all housing types (a decrease represents an improvement in affordability).

RBC's measure for the benchmark detached bungalow in B.C. dropped by 2.5 percentage points to 67.7 per cent (as compared to the national average of 42.2 per cent). The measure for the standard condominium apartment in the province declined by 1.3 percentage points to 35.0 per cent (compared to 28.5 per cent nationally), while the standard two-storey home measure edged down by 0.7 percentage points to 74.3 per cent (compared to 48.1 per cent nationally).

Vancouver registers improvement but remains an expensive market

The elevated risks to the Vancouver-area market partially subsided in the fourth quarter, with affordability measures dropping quite substantially. Following similar improvement in the third quarter, this brought welcome reprieve from the situation in spring 2011, when Vancouver recorded the worst levels of affordability ever witnessed in the annals of Canadian real estate.

“While affordability the Vancouver-area housing market continued to reverse some of the earlier sizable deterioration, owning a home at current prices would still take up the lion's share of a typical household budget,” noted Hogue. “The ownership bar therefore remains extremely high in the area.”

The RBC measure for standard detached bungalows in the Vancouver area dropped 4.6 percentage points, to 86 per cent. The measures for standard two-storey homes declined 2.0 percentage points, to 92.3 per cent, while that for standard condominium apartments declined by 2.4 percentage points, to 44.8.

“Poor affordability is no doubt a significant hurdle for local homebuyers,” added Hogue. “Home resales in the area have moderated below their 10-year average since spring last year and will continue to be under pressure in the year ahead.”

RBC’s housing affordability measure for the benchmark detached bungalow in Canada’s largest cities is as follows: Vancouver 86.0 per cent (down 4.6 percentage points from the previous quarter), Toronto 52.2 per cent (down 0.1 percentage points), Montreal 40.1 per cent (down 0.7 percentage points), Ottawa 40.9 per cent (down 0.1 percentage points), Calgary 36.7 per cent (down 0.7 percentage points) and Edmonton 32.8 per cent (down 0.3 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 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.

[Where housing affordability stands in Canada](#)

[Alberta](#) – affordable, yet buyers remain hesitant

Alberta’s housing prices became more affordable in the final quarter of 2011, which helped to pull measures down to their lowest or second lowest points since 2005 (they fell between 0.5 and 0.7 percentage points). In spite of such attractive affordability, the pace of home resales noticeably slowed. Going forward, a strong labour market and affordable housing should shake off any hesitation that Alberta homebuyers may have.

- After showing an encouraging start in 2011, home resales in the Calgary area stayed mostly flat for the rest of the year and ended with a marginal decline in the fourth quarter. This lacklustre performance was surprising given the strength in Calgary’s labour market (31,000 net new jobs were created in 2011) and the attractive affordability levels (measures fell for all housing categories between 0.2 and 0.7 percentage points). RBC expects strong market fundamentals will help the Calgary market turn a corner in the period ahead.

[Saskatchewan](#) – resales surge to the highest level in almost four years

Housing affordability improved across most types of housing in Saskatchewan in the fourth quarter of 2011, as RBC measures moved close their long-run averages. The province experienced a surge in home resales, which reached the highest level in almost four years. Affordability is unlikely to weigh on homebuyers at this point, particularly as strong economic growth is expected to continue spurring Saskatchewan's housing demand this coming year.

[Manitoba](#) – bucking the improving trend in affordability

Manitoba was the only province to experience a slight deterioration in affordability in the fourth quarter. Strong housing demand tightened market conditions and gave way to price increases, particularly for two-storey homes and condominiums. Market activity was especially brisk in Winnipeg in the closing months of 2011, where existing home sales reached record levels. Although housing has become slightly less affordable, RBC's housing measures for Manitoba remain close to long-run averages, which suggests little in the way of undue pressure being applied on the province's homebuyers.

[Ontario](#) – sellers hold on to the upper hand

Like most of the other provinces, it became slightly easier to own a home in Ontario during the fourth quarter of 2011. RBC measures fell modestly between 0.2 and 0.3 percentage points, partly reversing the notable deterioration in the first half of last year. Still, the proportion of household income needed to cover homeownership costs remained slightly higher than average. This does not appear to be a strain on homebuyers in the province at this stage. Home resales advanced at a good clip in the fourth quarter and the tight availability of homes gave sellers the upper hand.

- Affordability in Toronto's housing market continues to be slightly strained, although some improvement was registered in the fourth quarter with RBC measures easing between 0.1 and 0.5 percentage points. Relatively high prices did not seem to unnerve homebuyers as resale activity continued to advance at a brisk pace in the closing months of last year. The Toronto-area market remained slightly more favourable for sellers, which will present a challenge with respect to any improvements in affordability in the near term.
- The Ottawa area affordability picture was mixed in the final quarter of 2011. Changes in the RBC affordability measures for the area ran the full gamut, keeping levels above long-term averages. Still, fourth quarter home resales powered ahead and prices were bid higher for all housing types. It remains to be seen whether this strong market momentum will be maintained in the period ahead.

[Quebec](#) – steady as she goes

Housing affordability in Quebec stood in the neutral zone, with RBC's fourth quarter measures for the province equaling, or coming very close to, their long-run averages. There was a broad-based improvement across all housing types; in particular, two-storey homes registered a substantial improvement that reversed the deterioration observed in the first half of 2011. With affordability firmly in neutral, balanced market conditions will keep the Quebec market reasonably stable in the coming months.

- The Montreal area continued to reverse the earlier deterioration in housing affordability and recorded some of the country's more substantial improvements for the second consecutive quarter, with RBC measures falling between 0.7 and 2.0 percentage points. Home resales in the area rose 6.9 per cent in the fourth quarter, despite weaker labour market conditions observed in the last half of 2011. These employment levels may yet exert pressure on housing demand and market conditions over the near term.

[Atlantic](#) - considerable pick up in resale activity

Echoing market conditions and developments at the end of 2010, Atlantic Canada closed 2011 on a positive note, with significant pick-up in resale activity and back-to-back affordability improvements. Resale strength in the fourth quarter was particularly remarkable in Halifax, which may be a reflection of a burst in optimism following the announcement of the \$25 billion federal government frigate order. St. John's also saw a surge in housing activity. While most markets within the region remain balanced, Halifax is closing in on becoming a sellers' market, and Saint John remains a buyers' market.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today, at rbc.com/economics/market/.

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