



## HOUSING IN BRITISH COLUMBIA THE LEAST AFFORDABLE IN CANADA: RBC ECONOMICS

**TORONTO, May 20, 2011** — British Columbia's housing affordability took turn for the worse in the first quarter of 2011 after two consecutive quarterly improvements, according to the latest Housing Trends and Affordability report issued by RBC Economics Research. Frenzied pricing in the Vancouver market raised the bar to home ownership for buyers even higher.

“Demand for housing in British Columbia continued on the road to recovery in early 2011 at a pace that slightly exceeded the growth in the number of properties put on the market,” said Robert Hogue, senior economist, RBC. “As a result, the slight tightening of supply of homes for sale boosted the pricing power of sellers and negatively impacted affordability.”

RBC's report notes that brisk activity in the Vancouver area lifted British Columbia's home prices in the first quarter for all three housing categories, with detached bungalows increasing by 3 per cent, standard condominiums by 4.6 per cent and standard two-story homes by 5.5 per cent. Home price increases outpaced household income gains and caused first quarter affordability measures for B.C., which capture the proportion of pre-tax household income needed to service the costs of owning a home, to move higher across all housing types (an increase represents a deterioration in affordability).

The measure for the benchmark detached bungalow in the province rose to 60.2 per cent (an increase of 1.8 percentage points from the previous quarter), the standard condominium to 32.8 per cent (up 0.8 of a percentage point) and the standard two-story home to 67.9 per cent (up 1.2 percentage points).

Fuelled by strong demand for high-end properties, home prices in Vancouver surged between 4.7 and 7.2 per cent in the first quarter of 2011.

“The Vancouver area market has experienced marked housing price increases, which have shown few signs of letting up. We fear that the market is becoming increasingly disconnected with local demand conditions,” said Hogue. “Deteriorating affordability raises the risk of a painful market disruption in the area, especially when interest rates begin to rise, as we expect in the coming months.”

The majority of Canadian markets experienced weakened affordability in the first quarter of 2011. Most notable was the sizeable deterioration in British Columbia. More specifically, Vancouver saw significant gains in property values, which drove the already elevated cost of homeownership even higher. Quebec's homebuyers also faced noticeable rises in ownership costs, while those in Atlantic Canada saw their affordability advantage somewhat diminish. The picture remained mixed in other areas of the country, with Ontario, Alberta and Saskatchewan experiencing ups and downs in ownership costs, depending on the housing type.

"Despite the latest erosion in affordability, provincial levels generally continue to stand near their long-term averages, suggesting that owning a home remains affordable or, at worst, slightly unaffordable across Canada – with Vancouver being a notable exception," said Hogue.

RBC's housing affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 72.1 per cent (up 3.4 percentage points from the last quarter), Toronto 47.5 per cent (up 0.8 of a percentage point), Montreal 43.1 per cent (up 2.0 percentage points), Ottawa 39.0 per cent (up 0.4 of a percentage point), Calgary 35.9 per cent (up 0.9 of a percentage point) and Edmonton 31.5 per cent (up 0.5 of a percentage point).

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. Alternative housing types are also presented including a standard two-storey home 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:** Stable or slightly declining prices, contributed to substantial improvements in affordability in Alberta last year. While market conditions have become more balanced in recent months, there remains very little pricing momentum in the province. The RBC measures for all housing categories in Alberta stood below their long-term average in the first quarter.

- There are tentative signs that the Calgary market is finally firming up. Area homebuyers are benefiting from attractive affordability, which remained the best among Canada's major cities.
- **Saskatchewan:** Following solid performance in the second half of last year, some softening in property values in the early months of 2011 led to a further decrease in the cost of owning a home in Saskatchewan. The RBC measures for bungalows and two-storey homes fell by 0.7 of a percentage point in the first quarter, representing a third consecutive quarterly improvement in affordability. Condominium apartments bucked this trend and saw their affordability modestly deteriorate in the face of higher prices.
- **Manitoba:** Housing affordability continues to be attractive in Manitoba, with little change registered in the first quarter. Measures rose by 0.1 of a percentage point for detached bungalows, declined by 0.2 of a percentage point for condominium apartments and stayed even for two-storey homes. Manitoba is still one of only two provincial markets (alongside Alberta) where affordability measures stand below long-term averages for all housing categories.
- **Ontario:** In the first quarter of 2011, home resales in Ontario increased at a sustained and yet subdued rate, while home prices rose modestly overall. Affordability stood very close to long-term averages, leaving homebuyer demand largely unchanged in the province. RBC measures went up for bungalows and condominiums (by 0.5 and 0.1 of a percentage point, respectively), but down for two-storey homes (by 0.6 of a percentage point). Market activity in Ontario is likely to face some headwinds in coming months, given the latest changes in mortgage lending rules and the expected rise in interest rates.
  - Somewhat tense market conditions in Toronto further fuelled appreciation in property values and led to an erosion in affordability, as RBC measures for detached bungalows and condominium apartments rose by 0.8 and 0.1 of a percentage point respectively.
  - Ottawa measures increased modestly for detached bungalows and two-storey homes, while they remained the same for condominium apartments. As most measures have moved above long-run averages, any further deterioration in affordability will likely act to restrain demand in the area.

- **Quebec:** Quebec homebuyers faced higher ownership costs in the first quarter, which weighed significantly on affordability. RBC measures rose by 1.1 percentage points for detached bungalows and 1.3 percentage points for two-storey homes, both representing the second largest increases behind those recorded in British Columbia. All measures in Quebec stand slightly above their long-term averages, corresponding to a moderate strain in affordability in the province.
  - Montreal's affordability measures rose between 0.1 of a percentage point and 2.8 percentage points in the first quarter of 2011, pushing levels for all housing types above national and long-term averages for the area.
- **Atlantic Canada:** In the first quarter, rebounding housing market activity has boosted property values in Atlantic Canada. Home resales in the region climbed solidly for the second consecutive period and further reversed some of the declines that occurred last year. The downside has been a modest fall in the region's affordability position. Affordability measures for Atlantic Canada increased between 0.6 and 0.9 of a percentage point in the latest period, although levels hovered near long-term averages and remained among the lowest in the country.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today at [www.rbc.com/economics/market/pdf/house.pdf](http://www.rbc.com/economics/market/pdf/house.pdf).

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