



BRITISH COLUMBIA'S HOUSING AFFORDABILITY QUICKLY FADING: RBC ECONOMICS

Sky-high home prices in Vancouver exert tremendous stress

TORONTO, August 22, 2011 — Lofty home prices in British Columbia made it less affordable to own a home in the second quarter of 2011, according to the latest Housing Trends and Affordability report issued today by RBC Economics Research. This latest erosion of affordability was primarily driven by hefty price increases for bungalows in the Vancouver area.

RBC's affordability measures for British Columbia rose between 1.0 and 5.7 percentage points in the second quarter, representing some of the steepest increases in the country.

"Measures for all housing types in B.C. are hovering at or near their worst levels on record," said Robert Hogue, senior economist, RBC. "Such poor affordability almost entirely reflects the sky-high market valuations in the Vancouver area. We expect this to weigh on housing demand and pressure prices downward in the coming year."

RBC's housing affordability measures for British Columbia, which capture the province's proportion of pre-tax household income needed to service the costs of owning a home at market values, increased across all housing types in the second quarter of 2011 (an increase represents a loss of affordability). The measure for the benchmark detached bungalow rose significantly to 71.3 per cent (an increase of 5.7 percentage points from the previous quarter), the standard condominium to 36.8 per cent (up 1.0 percentage points) and the standard two-storey home to 76.6 per cent (a gain of 2.5 percentage points).

Evidence is mounting that unaffordable housing in the Vancouver area market is driving local buyers away. Since mid-winter, home resales fell and availability of homes for sale improved. This moderation in housing activity, however, did not translate to weaker prices. In fact, it was quite the opposite; provincial bungalow values experienced a double-digit surge. This marked the strongest increase among Canada's major cities.

"Lofty home prices in higher-end Vancouver neighbourhoods have put tremendous stress on the local housing market, which sets local demand up for a significant potential downturn," explained Hogue. "With the bar set so high, owning a home is a dream that only high-earning households can afford."

The Greater Vancouver Area experienced the sharpest deterioration in affordability among Canada's major cities, with measures in Vancouver rising from 1.5 to 10.4 percentage points, depending on the housing type, in the second quarter.

RBC's housing affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 92.5 per cent (up 10.4 percentage points from the previous quarter), Toronto 51.0 per cent (up 2.0 percentage points), Montreal 42.6 per cent (up 1.4 percentage points), Ottawa 41.2 per cent (up 1.3 percentage points), Calgary 37.1 (up 0.6 percentage points), and Edmonton 33.8 per cent (up 0.6 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. Alternative housing types are also presented, including a two-storey home and a standard condominium. The higher the reading, the more costly it is to afford a home based on the going market values. 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:** Housing affordability continues to be attractive in Alberta despite rises in measures – the lowest among provinces between 0.5 and 1.3 percentage points. Homebuyer demand has been stuck in low gear; existing home sales, new home construction and home prices continue to exhibit flat trends. Going forward, attractive affordability, robust growth and rising employment will act to shore up confidence in Alberta's housing market.
 - Home resales in Calgary edged lower in the second quarter, providing little pressure on prices and affordability overall. The RBC affordability measures rose between 0.4 and 1.1 percentage points, representing the smallest deterioration among major cities. Strong economic fundamentals in both Calgary and Alberta will support homebuyer demand in the period ahead.
- **Saskatchewan:** Price increases for two-storey homes and bungalows weighed on Saskatchewan's housing affordability in the second quarter. RBC measures for these two categories rose the most in more than two years – by 2.8 percentage points and 2.0 percentage points, respectively. At this point, affordability levels have moved further above long-term averages for the province, potentially causing some strain for homebuyers.
- **Manitoba:** Housing affordability has continued along in the 'neutral zone' in Manitoba this quarter. RBC measures experienced a modest deterioration in the latest quarter – ranging from 0.7 to 1.2 percentage points. This rise in homeownership costs may have contributed to cooling in spring home resale activity, though major flooding in the province likely caused some disruptions in certain areas. Before spring, Manitoba's existing home sales registered the best first quarter ever, led by strong gains in Winnipeg.
- **Ontario:** Although existing home sales eased in the second quarter, sellers remained in the driver's seat in many local Ontario markets, leading to continued house price increases. This raised the cost of homeownership in the province.

RBC measures increased between 1.1 and 2.0 percentage points, further reversing some of the declines registered in the latter half of last year. Still, affordability in the province is not being overly strained.

- In the second quarter, slim availability of homes for sale in Toronto allowed for sellers to have a strong hand in the price-setting process. In spite of a decline in affordability, Toronto-area homebuyers remained motivated. Second quarter RBC measures rose between 1.2 and 2.9 percentage points.
- So far this year, homebuyer demand has softened in the Ottawa area. Second quarter costs of owning a home rose for the third straight quarter, as property values appreciated moderately across all housing types. RBC measures for Ottawa increased between 0.7 and 1.3 percentage points this quarter.
- **Quebec:** Affordability has been a mixed bag in Quebec so far this year. The cost of owning freehold homes slipped for two successive quarters and the cost of owning a condominium apartment did not change materially. In the second quarter, RBC measures for bungalows and two-storey homes climbed 1.0 and 1.8 percentage points, respectively. The measure for condos barely rose (up only 0.2 percentage points). Divergent affordability patterns were reflected in home prices.
 - It has become increasingly more difficult to afford a home in the Montreal area. In the second quarter, the RBC measures rose for all housing types, indicating further deteriorating affordability. Over the past year, price increases led to Montreal losing its status as one of Canada's most affordable cities. This did not seem to concern homebuyers as they increased their purchases of homes for the second consecutive quarter.
- **Atlantic:** Rather flat market activity kept gains in property values in Atlantic Canada at bay, which limited the deterioration in housing affordability in the second quarter. RBC measures rose between 0.9 and 1.2 percentage points across the region. Atlantic Canada continues to have a long-standing affordability advantage relative to most other Canadian markets. The Atlantic Canada market was resilient during the 2008-2009 downturn and is well positioned to weather possible adversity going forward.
 - Several local markets in the region experienced a slowing in resale activity, including Halifax, St. John's and Saint John. Moncton, on the other hand, saw meaningful gains in the second quarter.

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

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