



B.C. HOUSING AFFORDABILITY CONTINUES TO ERODE: RBC ECONOMICS

TORONTO, August 27, 2012 — Owning a home became even more financially challenging for B.C. households for the second consecutive quarter in 2012, according to the latest [Housing Trends and Affordability Report](#), issued today by RBC Economics Research.

“Housing affordability in British Columbia remained poor and worsening in the most recent quarter,” said Robert Hogue, senior economist, RBC. “However, this largely reflects the extreme unaffordability conditions in the Vancouver area market – the situation is far less severe in other parts of the province. In Victoria, for instance, the share of income needed to carry the costs of a mortgage at market prices for some housing types is almost half that of Vancouver.”

RBC notes that recent housing activity in the province was largely driven by to the contrasting affordability-related pressures by region. Overall, second quarter home resales fell in British Columbia, resulting entirely from weakness in the Vancouver area market. Across the rest of the province, resales were flat relative to the first quarter.

RBC’s housing affordability measures for B.C. capture the province’s proportion of pre-tax household income needed to service the costs of owning a home at going market values. These measures increased across all housing categories, rising between 0.2 and 1.2 percentage points (an increase in the measure represents deterioration in affordability).

Vancouver affordability under intensifying pressure

The RBC report found that extremely poor affordability appears to have caught up with the Vancouver area market.

“Affordability measures for the Vancouver area increased between 0.4 percentage points and 2.2 percentage points in the second quarter and are inching ever closer to the worst levels in the annals of Canadian real estate,” said Hogue. “We expect this intense affordability-related pressure to continue to weigh heavily on the Vancouver market.”

Since spiking unexpectedly at the start of 2011, home resales in the area have fallen steadily. In fact, year-to-date resales have plummeted 18 per cent compared to a year ago.

“Such weakness in resale activity has significantly loosened market conditions, to the point that sky-high prices in Vancouver have started to wind down in recent months,” added Hogue. “The MLS Home Price Index for Vancouver – a less volatile gauge of market value than average prices – hit a peak in May and has since declined.”

Where housing affordability stands in Canada

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities is as follows: Vancouver 91.0 per cent (up 2.2 percentage points from the previous quarter), Toronto 54.5 per cent (up 0.9 percentage points), Ottawa 41.9 per cent (unchanged), Montreal 40.4 per cent (down 1.0 percentage points), Calgary 36.7 per cent (unchanged) and Edmonton 32.4 per cent (down 0.1 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 costly it is to afford a home based on 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: Lower utility costs help affordability

Markets in Alberta defied the national trend in the second quarter, experiencing widespread improvements in affordability, thanks to significant drops in the prices for electricity and natural gas. RBC measures eased between 0.3 and 0.6 percentage points, to levels well below their long-run averages.

- Calgary's housing market enjoyed stronger home resales and building activity, as well as moderately rising prices, and continues to register one of the most attractive affordability levels among Canada's largest cities.

Saskatchewan: Strong price increases dent affordability

Brisk housing activity over the past year has considerably tightened market conditions and applied upward pressure on home prices in the province, leading to some of the bigger deteriorations in affordability across Canada in the second quarter. The RBC measure for two-storey homes surged by 2.8 percentage points, while measures for condominium apartments and detached bungalows climbed 1.6 and 1.4 percentage points respectively.

Manitoba: Homeownership costs remain manageable despite slip in affordability

Strong activity in Manitoba's housing market in the second quarter led to a notable erosion in affordability. Still, households face some of the lowest ownership costs as a share of their income in Canada. RBC measures rose between 0.4 and 1.9 percentage points in the province, to stand slightly above their historical average.

Ontario: Slowly deteriorating affordability trends live on

Ontario's homeownership costs rose in the most recent quarter, extending the gradually rising trend seen since 2009. RBC measures increased between 0.1 and 0.8 percentage points, modestly exceeding their long-term average.

- The Toronto area market saw modest deterioration in affordability for the second straight quarter. Homeownership costs consumed a larger share of household income in comparison to the historical average, revealing the presence of some greater-than-usual stress in the market, though mostly in single family home categories. Such stress will weigh on homebuyer demand in the period ahead. Meanwhile, market activity has cooled several degrees in recent months and the earlier tightness has eased.
- There was no change in homeownership costs as a share of household income in the Ottawa area market in the second quarter. RBC measures continue to stand above their long-run average and near their historic peaks, representing a greater-than-normal strain on Ottawa homebuyers. While second quarter existing home sales recorded the third-best ever pace in the area, the market's momentum has shifted down from the brisk pace recorded last year.

Quebec: Affordability trending sideways

Affordability measures in the province trended sideways in the second quarter, moving in the opposite direction of changes registered in the previous period. Following widespread increases earlier this year, RBC measures declined for detached bungalows (0.7 percentage points) and condominium apartments (0.5 percentage points), while the measure for two-storey homes edged higher by 0.2 percentage points for the second consecutive quarter.

- In Montreal, the RBC measures remain roughly in line with historic norms for most housing categories. However, the measure for the two-storey homes segment remained notably above its long-term average, indicating that greater-than-usual tensions will likely persist.

Atlantic Canada: Long-standing favourable affordability position maintained

Moderate affordability deterioration in the Atlantic region continued in the second quarter, with RBC measures rising between 0.3 and 0.7 percentage points, within close range of their long-run averages.

The full RBC Housing Trends and Affordability report is available online, as of 7 a.m. ET today, at rbc.com/economics/market.

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