



B.C.'S HOME AFFORDABILITY IMPROVES IN THIRD QUARTER: RBC ECONOMICS

TORONTO, November 29, 2010 — After experiencing a considerable deterioration in housing affordability since mid 2009, British Columbia's housing market welcomed an improvement in the third quarter thanks to easing home prices and lower mortgage rates, according to the latest Housing Trends and Affordability report issued today by RBC Economics Research.

“Declining mortgage rates left a positive mark on affordability across the country and had a particularly powerful impact in B.C.,” said Robert Hogue, senior economist, RBC. “Elevated home prices relative to income in the province amplified the effects on affordability of lower mortgage rates and provided a welcomed reprieve from the sharp rise in homeownership costs in the past year.”

The RBC report notes that B.C. experienced much cooler resale activity during the spring and summer and increased availability of properties for sale causing home prices to fall. Third quarter affordability measures for the province dropped between 1.8 and 5.0 percentage points, representing the largest declines since the first quarter of 2009. However, the report indicates that measures remain significantly above long-term averages and continued poor affordability is likely to restrain housing demand in the period ahead.

The RBC Housing Affordability Measures for B.C., which capture the province's proportion of pre-tax household income needed to service the costs of owning a home, declined across all housing types in the third quarter of 2010 (a decrease represents an improvement in affordability). The measure for the benchmark detached bungalow in the province moved down to 59.0 per cent (a drop of 5.0 percentage points from the previous quarter), the standard condominium to 32.9 per cent (down 1.8 percentage points) and the standard two-storey home to 67.5 per cent (down 3.9 percentage points).

Homeownership costs in Vancouver fell considerably in the third quarter of 2010 after swelling for five consecutive quarters. This decline can be attributed to lower mortgage rates and price decreases for some housing types, particularly bungalows.

Affordability measures in Vancouver recorded the most significant drops among Canada's major cities, falling 2.2 to 5.4 percentage points depending on the housing type. However, this only reversed the increases experienced in the city since the start of this year, representing just one-third to one-half of the considerable spike observed since the spring of 2009.

"Vancouver remains an expensive market to enter as high ownership costs continue to weigh on demand which remains weak despite modest increases in home resales in September and October. Nonetheless, downward pressure on home prices is limited as supply is generally lining up well with demand," said Hogue.

All provinces saw improvements in affordability in the third quarter. Along with British Columbia, Ontario also experienced some notable drops in homeownership costs, pushing down the RBC Measures below their long-term average in the province for bungalows and condominiums. Alberta and Manitoba are the only two provinces where the RBC Measures stand below their long-term average in all housing categories, indicating little stress in these markets.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 68.8 per cent (down 5.4 percentage points from the last quarter), Toronto 47.2 per cent (down 3.0 percentage points), Montreal 41.7 per cent (down 1.3 percentage points), Ottawa 38.2 per cent (down 2.9 percentage points), Calgary 37.1 per cent (down 2.0 percentage points) and Edmonton 32.7 per cent (down 2.0 percentage points).

The RBC Housing Trends and 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:** Despite recording substantial affordability improvements since early 2008, housing demand in Alberta is still a shadow of its former self from just a few years ago and there are few signs that it is picking up meaningfully. The RBC Measures eased between 0.8 and 1.8 percentage points, more than reversing modest rises in the second quarter. Homeownership is among the most affordable in Canada both in absolute terms and relative to historical averages. RBC notes such a high degree of affordability bodes well for a strengthening housing demand once the provincial job market sustains more substantial gains.
- **Saskatchewan:** Saskatchewan home resales rebounded since August and reversed most of their slide in the first half of this year; however, the earlier softening of activity had a lingering effect on home prices which fell across all housing types relative to the second quarter. RBC's Affordability Measures dropped between 1.8 and 2.2 percentage points, the most since early 2009 but still modestly above their long-term average, suggesting that current market conditions might be stretching Saskatchewan homebuyers' budgets to a degree.
- **Manitoba:** Manitoba's housing resales picked up smartly in September and October, swiftly turning the page on a particularly weak summer period, with provincial homebuyers taking advantage of improving affordability. RBC's Measures fell between 0.9 and 2.3 percentage points, reversing one-half to three-quarters of the increase that occurred since the spring of 2009. Manitoba is one of only two provinces, with Alberta, where the measures for all housing types are currently below their long-term averages, which will be a supportive factor for demand going forward.
- **Ontario:** After four consecutive quarterly increases, the cost of homeownership declined in Ontario in the third quarter thanks to lower mortgage rates and some softening in property values. RBC's Measures fell between 1.3 and 2.4 percentage points, fully reversing the increase in the second quarter. Existing home sales ended their precipitous slide confirming RBC's earlier expectation that the slowdown in activity through the spring and summer largely reflected various transitory factors – including the HST and changes in mortgage lending rules – that spurred demand at the start of this year. With the market now back in balance, the recent softness in home prices will likely prove to be a healthy recalibrating following a strong rally.

- **Quebec:** The Quebec housing market is making its way towards more stable activity levels after plummeting to six-year lows at the end of 2008 and then surging to all-time highs at the start of 2010. Supporting this trend in the near term is an improvement in affordability in the third quarter. Following four consecutive increases, the RBC Measures for the province fell 1.4 to 1.8 percentage points depending on the housing type, but still remain close to the pre-downturn peaks and above their long-term average, which will likely restrain growth in demand in the period ahead.
- **Atlantic Canada:** The East Coast housing market picked up some steam early this fall following a marked cooling in activity in the spring when resales fell back to the lows reached at the end of 2008. Modest price declines and a drop in mortgage rates contributed to lower third quarter homeownership costs with RBC's Measures moving down between 1.0 and 1.5 percentage points in the third quarter and returning roughly to the levels experienced in mid- to late-2009. Overall, housing affordability remains attractive in Atlantic Canada.

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

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