



B.C.'S HOUSING AFFORDABILITY IMPROVES FOR SECOND CONSECUTIVE QUARTER: RBC ECONOMICS

TORONTO, February 24, 2011 — Thanks primarily to small declines in mortgage rates, buying a home in British Columbia became a little more affordable – or rather less unaffordable – in the fourth quarter of 2010, according to the latest Housing Trends and Affordability report issued today by RBC Economics Research.

Rates for fixed-rate mortgages fell slightly in the closing months of last year, offsetting the effect of higher prices in British Columbia. After experiencing some declines in the previous quarter, home prices in the province rose modestly for most housing categories in the fourth quarter, with the exception of condominium apartments which depreciated slightly.

The RBC report notes that housing market supply and demand in B.C. are currently relatively balanced.

“Prices in recent months were supported by a tightening in market conditions in the fall with home resales picking up smartly following substantial cooling in the spring and summer that resulted in sellers losing their edge in setting property values,” said Robert Hogue, senior economist, RBC. “While affordability measures have eased in the province over the past two quarters, affordability still remains poor in B.C. and will weigh on housing demand going forward.”

Fourth quarter affordability measures in the province fell between 0.8 and 1.0 percentage points in the fourth quarter on the heels of the much more substantial drops (1.7 to 4.8 percentage points) that were recorded in the third quarter.

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 fourth quarter of 2010 (a decrease represents an improvement in affordability). The measure for the benchmark detached bungalow in the province moved down to 58.5 per cent (a drop of 0.8 percentage points from the previous quarter), the standard condominium to 32.2 per cent (down 0.9 percentage points) and the standard two-storey home to 66.9 per cent (down 1.0 percentage point).

Homeownership costs in Vancouver eased in the final quarter of 2010, marking the second quarterly decline in a row after five consecutive quarters of increases. Home prices mostly rose, however, and dampened the affordability-improving benefits of lower mortgage rates. Housing market activity picked up late last year from the summer 2010 lows, yet resales remain well below the levels that prevailed in the five years prior to the 2008 downturn.

Affordability measures in Vancouver fell 0.4 to 1.3 percentage points (depending on the housing type) in the fourth quarter. These declines were much smaller relative to the 2.0 to 5.3 percentage point drops recorded in the preceding period when a decline in mortgage rates combined with weaker prices for most housing categories.

“Vancouver-area homebuyers breathed a small sigh of relief in last quarter of 2010 as the still very high homeownership costs eased slightly,” said Hogue. “Affordability measures in the area remain well above their long-run average and we believe that poor affordability will continue to weigh on local demand, causing a high degree of stress on the market.”

Elsewhere in the country, a majority of provinces saw improvements in affordability in the fourth quarter, most notably in Alberta where falling home prices once again contributed to lower the bar for affording a home. Only the standard two-storey benchmark became less affordable in Ontario and Quebec, as did the standard condominium apartment in Quebec and the Atlantic region.

RBC’s Housing Affordability Measure for a detached bungalow in Canada’s largest cities is as follows: Vancouver 68.7 per cent (down 0.4 percentage points from the last quarter), Toronto 46.8 per cent (down 0.5 percentage points), Montreal 41.3 per cent (down 0.4 percentage points), Ottawa 38.7 per cent (up 0.5 percentage points), Calgary 34.9 per cent (down 3.1 percentage points) and Edmonton 31.0 per cent (down 2.4 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 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:** Alberta officially became the most affordable provincial market in the country in the fourth quarter, according to the RBC Measures which fell once again by 1.0 to 2.4 percentage points, extending their declines since late-2007. In addition to the lower mortgage rates, the further depreciation of home prices contributed to lowering homeownership costs. Property values were negatively affected by a substantial downswing in demand in the spring and early summer, which put buyers in the drivers' seat. The significant improvement in affordability is near the end of its line, however, as demand has shown more vigour in recent months – alongside a provincial economy that is gaining more traction – and the market has become better balanced. RBC expects that this will stem price declines this year, thereby removing a potential offset to the negative effect of projected rise in interest rates on affordability.
- **Saskatchewan:** The provincial housing market finished 2010 on an enviable note as affordability improved even though home prices, for the most part, rose slightly in the fourth quarter. Generally, the price increases more than reversed declines in the previous period but were too small to negate the beneficial effect of lower mortgage rates. The home resale market gained back solid forward momentum in the second half of 2010, notwithstanding some softening in the final months, which re-established a stronger balance between demand and supply. The RBC Measures fell between 0.6 and 1.1 percentage points in the quarter, although the levels continue to be modestly above historical averages in the province. RBC projects the Saskatchewan market will take its current affordability position in stride as a rebound in provincial economic growth and continued strong migration inflows will support housing demand this year.
- **Manitoba:** Manitoba's market enjoyed the best of both worlds in the fourth quarter of 2010 as home price were higher but ownership costs were lower. Thanks to lower mortgage rates in the quarter and continued growth in household income, the negative effect of small gains in property values on affordability was more than offset. The RBC Measures eased between 0.1 and 0.6 percentage points in the fourth quarter, keeping Manitoba among the only two provincial markets in Canada (with Alberta) in which Affordability Measures stand below long-term averages for all housing categories. Sales of existing homes ramped up considerably in the fall, reaching near historical peaks by December. Housing demand is being boosted by the strongest net international immigration in the province since the mid 1950s and by improved job prospects – Manitoba boasts the lowest unemployment rate in Canada (as of the fourth quarter of 2010) and RBC expects this to continue in 2011.

- **Ontario:** Concerns last year that the housing market would falter have now largely dissipated as home resale activity picked up smartly in the fall and property values resumed their appreciation trend in the closing months of 2010. The slowdown in market activity in the spring and summer last year largely reflected various transitory factors – including the introduction of the HST and changes in mortgage lending rules – that brought demand forward to the start of the year. The silver lining of this slowdown, however, has been an improvement in affordability. The RBC Measures edged lower for the second consecutive time for most housing categories in the fourth quarter, down by 0.2 to 0.3 percentage points. The only exception was two-storey homes, which became marginally less affordable amid notable price gains. RBC expects affordability will play a neutral role for demand in Ontario with RBC Measures close to their long-run average.
- **Quebec:** Higher home prices in the fourth quarter of 2010 caused some deterioration in affordability following meaningful improvement in the previous period. Home resales strengthened in the latter part of 2010, contributing to tightened market conditions that gave sellers a stronger hand in negotiating prices, particularly for two-storey homes. Price gains and rising household income dominated the positive effects of lower mortgage rates on affordability in the fourth quarter for all housing types except detached bungalows (where a small improvement was registered). RBC Measures rose marginally by 0.1 to 0.2 percentage points for two-storey homes and condominium apartments, and fell by 0.6 percentage points for detached bungalows; however, the levels of all Measures still modestly exceeded long-term averages in the province. RBC expects that modestly strained affordability in Quebec will further deteriorate in the period ahead when interest rates rise.
- **Atlantic Canada:** Home resale activity sputtered late in 2010 and reversed some of the gains achieved at the end of the summer and early fall. This has not disrupted property values in the fourth quarter as home prices generally appreciated; yet, housing affordability improved for most housing categories because declines in interest rates provided a dominant offset. Only condominium apartments saw a slim deterioration in affordability as the RBC Measures rose by 0.1 percentage point compared with declines of 0.5 percentage points for detached bungalows and two-storey homes. Affordability levels continue to be mostly attractive in Atlantic Canada from both historical and cross-country perspectives. RBC projects that is likely to remain so in the near-term despite our expectation of higher interest rates. Market conditions have recently swung in favour of buyers which will exert downward pressure on prices in coming months.

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.

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