



PRESS RELEASE



Canadian Mortgage News - National Archive 2010

Canada's housing affordability slips slightly: RBC Economics

TORONTO, Ontario, March 15, 2010 — Homeownership costs in Canada increased slightly across all housing segments in the closing months of 2009, as rising prices made it more expensive to own a home, according to the latest housing report released today by RBC Economics Research.

"While home affordability deteriorated at the national level in the fourth quarter of 2009, the change was relatively modest overall," said Robert Hogue, senior economist, RBC. "The effect of higher prices was largely mitigated by a small decline in mortgage rates and continued gains in household income."

The RBC Housing Affordability measure captures the proportion of pre-tax household income needed to service the costs of owning a home. During the fourth quarter of 2009, measures at the national level rose slightly across all housing types (the higher the measure, the more difficult it is to afford a home).

The detached bungalow benchmark inched 0.3 per cent higher to 40.6 per cent, the standard townhouse rose by 0.2 percentage points to 32.9 per cent, the standard condominium climbed by 0.1 per cent up to 28 per cent and the standard two-storey home increased by 0.3 percentage points to 46.7 per cent. Despite the recent increase, all affordability measures remain well below their levels from a year ago.

The report projects that the cost of owning a home will continue to rise, as strong demand and limited supply of homes for sale sustain the upward trend in prices. Exceptionally low mortgage rates and anticipated rate increases starting mid-year are fuelling demand.

Real estate markets in B.C. and Ontario should see a further boost in demand prior to the introduction of the harmonized sales tax (HST) on July 1, 2010, which will increase the transaction costs associated with a home purchase.

According to the report, the federal government's recent announcement of changes to the mortgage market were aimed at preventing a bubble from forming in Canada and could reduce demand when the new rules take effect in April. However, the precise market effect is unknown at this point.

"The anticipated and gradual rise in interest rates indicates that affordability is likely to gradually get worse as rates return to normal levels," added Hogue. "The significant drop in mortgage rates since late 2008 was the principal factor contributing to the overall improvement in housing affordability in the past year."

RBC's Housing Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 69 per cent (up 1.4 percentage points), Toronto 49.1 per cent (up 0.1 percentage point), Ottawa 40.4 per cent (down 0.3 percentage points), Montreal 39.1 per cent (up 0.9 percentage points), Calgary 37.1 per cent (up 0.1 percentage point) and Edmonton 32.9 per cent (down 0.4 percentage points).

Canadian Mortgage News - Canada's housing affordability slips slightly: RBC Economics

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. Alternative housing types are also presented including a standard two-storey home, a standard townhouse 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:

- **British Columbia:** Homeownership costs are rising in B.C. as very strong demand and a limited supply of homes for sale combine to propel prices substantially higher. All home affordability measures are above long-term averages in the province, a trend that is likely to continue in the near term.
- **Alberta:** The lagging economic recovery in Alberta, compared to other provinces, has stabilized housing affordability rates. Excessive supply left over from last year's downturn and housing slump has limited increases in housing prices. Attractive affordability levels and additional economic recovery should boost housing demand over the next year.
- **Saskatchewan:** Increased supply and lessened demand has put a damper on the housing market in the province, as the real estate market cooled from the heightened resale activity in the spring and summer. While home affordability improved in the province, the cost of owning a home still remains historically high.
- **Manitoba:** Manitoba's real estate market picked up considerably over the last quarter of 2009. Prices for condominiums and two-storey homes rose significantly, causing affordability levels to deteriorate in the province. Despite these increases, affordability levels are in line with long-term averages as Manitobans still see the costs associated with owning a home as manageable.
- **Ontario:** The housing market in Ontario has staged a remarkable recovery in the past year. Resale activity has recently reached record levels as prices have rebounded to new heights in most housing categories. This has caused only limited damage to housing affordability in the province as lower mortgage rates and growth in household income kept affordability levels close to long-term averages.
- **Quebec:** The provincial rally in the resale housing market shows few signs of slowing, as property values have fully recovered what little ground was lost during the downturn early last year. Home prices have risen substantially for most housing categories in the fourth quarter in Quebec, causing some of the sharper deteriorations in affordability among provinces.
- **Atlantic Canada:** Unlike many other parts of the country, housing affordability on the East Coast generally continued to improve in the fourth quarter. With most measures below long-term averages, activity in the housing resale market should remain elevated.

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