



## PRESS RELEASE



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### **Canada's housing affordability worsens as home prices continue to rise: RBC Economics**

**TORONTO, Ontario, May 25, 2010** — Homeownership costs in Canada rose for the third straight quarter across all housing segments, as a strong real estate market and increased prices made it more expensive to own a home, according to the latest housing report released today by RBC Economics Research.

"Although home ownership became more costly in the first quarter of 2010, affordability measures are still moderately above the long-term average and below peak levels," said Robert Hogue, senior economist, RBC. "We expect affordability to deteriorate throughout 2010 and 2011, but this should be limited as more balanced supply and demand conditions will take much of the steam out of the housing market."

The RBC Housing Affordability measure captures the proportion of pre-tax household income needed to service the costs of owning a home. During the first quarter of 2010, measures at the national level rose across all housing types (the higher the measure, the more difficult it is to afford a home).

The detached bungalow benchmark measure rose by 0.9 of a percentage point to 41.1 per cent, the standard townhouse inched up by 0.4 of a percentage point to 33 per cent, the standard condominium climbed by 0.5 of a percentage point up to 28.2 per cent and the standard two-storey home increased by 0.6 percentage points to 46.8 per cent.

The report projects that the cost of owning a home will continue to rise. The main contributing factor will be the expected rise in interest rates, as the Bank of Canada moves towards raising the current exceptionally low rates to more normal levels through the second half of this year and in 2011. According to the report, housing affordability measures in Canada are unlikely to exceed the peak levels reached in early 2008.

"We believe that the spectacular rally in housing prices over the past year will soon end, as rock-bottom mortgage rates increase," noted Hogue. "Sustained economic growth over the next year and the ensuing rise in job creation and household income should keep home affordability from spiraling out of control."

With the exception of Alberta, home affordability measures deteriorated across all provinces with a significant decline in affordability in B.C., Saskatchewan and Manitoba. Housing affordability declined more moderately in Quebec, Ontario and Atlantic Canada.

RBC's Housing Affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 73.4 per cent (up 4.8 percentage points over the last quarter), Toronto 49.1 per cent (up 0.4 of a percentage point), Ottawa 40.3 per cent (up 0.3 of a percentage point), Montreal 39.7 per cent (up 0.9 of a percentage point), Calgary 36.5 per cent (down 0.3 of a percentage point) and Edmonton 32.0 (down 0.5 of a percentage point).

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 became even more expensive in B.C., as strong home price momentum continued in the first quarter. Housing affordability measures have now returned close to the all-time highs reached in early-2008. This trend represents a risk that could weigh heavily on the province's housing market in the near term.
- **Alberta:** Affordability measures eased in the first quarter, as Alberta was the only province to show a decline in the costs associated with owning a home. Housing price increases in the province were fairly modest over the past year, which has kept home ownership relatively affordable. RBC affordability measures are at or below the long-term averages.
- **Saskatchewan:** Housing prices picked up in the province in early 2010, causing home affordability measures to rise significantly. This is a change from previous quarters, which showed an improvement in affordability. Despite this increase, affordability measures still remain well below the all-time peak levels reached in early-2008.
- **Manitoba:** Prices for most housing types surged ahead in the first quarter of 2010, pushing affordability measures above the long-term average for the province despite a slower pace of resale activity. Affordability in the province has reached a point where an additional decline in home affordability may temper housing demand.
- **Ontario:** Home prices in the province continued to rise, with property values reaching record highs in many parts of the province. This has led to a further decline in housing affordability, which has been on a deteriorating trend since the middle of last year. With escalating prices, affordability measures are now above the long-term average. This suggests that additional increases in housing costs may price more and more buyers out of the market in Ontario.
- **Quebec:** Quebec's housing market rally continued in the first quarter of the year, with record-levels of buying activity and rising property values. This escalation in home prices, while more moderate than in the previous two quarters, weakened affordability in the province. All affordability measures now exceed their long-term average, which may soon slow housing demand in the province.
- **Atlantic Canada:** Resale activity on the East Coast remained solid, with an increase in sales met by a rise in the supply of available homes. These broadly balanced conditions have limited the pace of price increases in the region. Overall housing affordability in Atlantic Canada continues to be among the most attractive in the country, with measures still below long-term averages.

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](http://www.rbc.com/economics/market/pdf/house.pdf).