

Dream of home ownership gets easier in B.C., RBC report says

Lower interest rates and flat prices help buyers, although province remains an expensive housing market

BY BRIAN MORTON, VANCOUVER SUN NOVEMBER 30, 2010



Stephanie and Richard Michel have recently moved into a home in Maple Ridge. Lower prices helped them find a new split-level on a larger lot.

Photograph by: Gerry Kahrman, PNG, Vancouver Sun

B.C. homebuyers have won a temporary reprieve from the sharp drop in affordability since the middle of 2009, according to a national report released Monday by RBC Economics Research.

"It was a combination of a drop in interest rates and some softening of pricing that lowered monthly mortgage payments," RBC senior economist Robert Hogue said in an interview about the RBC Housing Affordability Measures, which looked at the third quarter of 2010.

"[It] had a particularly powerful impact on B.C.

"But B.C., and Vancouver in particular, remains an expensive market. And it's unlikely to change the trend over the next year or two of an increasing cost of home ownership."

According to the report, much cooler resale activity during the spring and summer, and greater availability of properties for sale, caused B.C. home prices to either fall -most notably for detached bungalows -- or remain stable, mainly in the case of condominiums.

Richard and Stephanie Michel took advantage of the price drop to move up from their Pitt Meadows rancher to a larger split-level Maple Ridge house with a larger lot.

"We figured now would be a good time to upgrade due to the low interest rates and the fact that prices could potentially go higher," Richard Michel said in an interview.

"We bought it at the end of October and moved in two weeks ago," added Michel, who is a PepsiCo delivery truck driver.

"We needed more space. We're planning on having another child."

The Michels paid \$495,000 for their new home, down from an asking price of \$524,900, he noted.

Third quarter affordability measures for B.C. dropped between 1.8 and 5.0 percentage points -the largest declines since the first quarter of 2009.

Still, it concluded, very poor affordability is likely to weigh on provincial housing demand in the period ahead.

Tsur Somerville, director of the Centre for Urban Economics and Real Estate at the University of B.C.'s Sauder School of Business, said in an interview that B.C. has seen house prices "flatten out, if not decline slightly, from earlier this year.

"A weak economic recovery has continued and that means rising incomes. At the same time, interest rates are more favourable than last year. So if incomes go up and interest rates come down and house prices are flat, then affordability improves."

However, Somerville noted that B.C. remains "a very, very expensive place to live. So governments need to think about what they can do to create varied housing options."

The report also cited third quarter relief for Vancouver, although that's unlikely to change the perception that the city is an expensive market to enter because affordability remains very poor.

An affordability reading of 50 per cent means that home ownership costs, including mortgage payments, utilities and property taxes, take up 50 per cent of a typical household's monthly pre-tax income.

While the affordability measure for a detached bungalow in Vancouver stood at 68.8 per cent, Toronto was at 47.2 per cent and Montreal at 41.7 per cent.

The report concluded that the cost of a detached bungalow in B.C. stood at \$544,700 in the third quarter, an 8.5-per-cent increase over the third quarter of 2009, and that the amount required a qualifying income of \$108,800.

That compared with Canada at \$325,000, up 6.8 per cent over 2009, and a qualifying income of \$72,500.

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