

Vancouver's pricey market 'in dangerous territory,' makes home ownership a dream: report

RBC survey indicates city's 'sky-high valuations' drives buyers out of the market, and has the highest risk of a downturn

By Brian Morton, Vancouver Sun August 22, 2011



According to RBC's August 2011 Affordability Index, Vancouver is the prime culprit for Canada's increasingly unaffordable housing climate. The following are the latest numbers, representing how many percent of an area's median household income would be needed to support the housing costs (mortgage, tax, etc.) in the same area.

Photograph by: Mark Van Manen, Vancouver Sun Files, Vancouver Sun

METRO VANCOUVER — Metro Vancouver's lofty home prices have made it virtually impossible for a typical family to purchase a detached bungalow with a standard down payment, according to a report by the Royal Bank of Canada released Monday.

That is one of many conclusions contained in a survey that says housing in Canada became harder to afford in the second quarter, with Vancouver's hefty price increases playing a major role in the deterioration of affordability for both B.C. and the rest of Canada.

“Since the start of this year, Vancouver directly accounted for between one-sixth and one-third of the national measures' increases,” the report says.

“It [Vancouver] is unaffordable,” RBC senior economist Robert Hogue said in an interview of the latest quarterly Housing Trends and Affordability report by RBC Economics Research.

“It means that a typical household in Vancouver could not be anywhere close to buying a two-storey home when buying the conventional way with 25 per cent down at the current posted [mortgage] rates. And that's why we're flagging Vancouver as a market that's in dangerous territory.”

Hogue said that Vancouver has long been a very expensive market, but it's gotten much more expensive since the beginning the year. “Now, it's in a class by itself and it's reached a level that we think suggests high stress and high risk.”

Hogue said that measures for all housing types in B.C. are hovering at or near their worst levels on record, adding that “we expect this to weigh on housing demand and pressure prices downward in the coming year.”

He said that sales and prices should drop anywhere from three per cent to a “much more precipitous decline” in 2012, adding that buyers should be “very, very careful” when buying a Vancouver house strictly for investment purposes.

The RBC index measures the proportion of pretax household income needed to service the cost of owning a home. A rise in the measure indicates a loss of affordability.

The higher the reading, the more costly it is to afford a home based on the market values. For example, an affordability reading of 50 per cent means that home ownership costs, including mortgage payments, utilities and property taxes, take up to 50 per cent of a typical household's monthly pre-tax income.

Across B.C., the measure for the benchmark detached bungalow rose significantly in the second quarter of 2011 to 71.3 per cent (an increase of 5.7 percentage points from the previous quarter), the standard condominium to 36.8 per cent (up 1.0 percentage points) and the standard two-storey home to 76.6 per cent (a gain of 2.5 percentage points).

Nationally, for a detached bungalow, the measure rose 1.7 percentage points to 43.3 per cent. For a standard condominium, it edged up 0.8 percentage points to 29.2 per cent, and for a standard two-storey home it climbed 1.8 percentage points to 49.3 per cent.

But it was in Metro Vancouver where the index was most striking for detached bungalows, with Vancouver's measure at 92.5 per cent (up 10.4 percentage points from the previous quarter and based on a median household income of approximately \$55,000), compared to Toronto's 51.0 per cent, Montreal's 42.6 per cent, Ottawa's 41.2 per cent, Calgary's 37.1 and Edmonton's 33.8 per cent.

The report says that the average price for that Vancouver bungalow was \$822,000, a 19.4-per-cent increase year-over-year, requiring a qualifying household income of \$158,000.

For B.C., the average price was \$622,000, up 10.9 per cent in a year, requiring a qualifying income of \$122,000.

For Canada, the average price was \$348,000, up 5.2 per cent in a year, requiring an income of \$77,000.

The report says there is growing evidence that unaffordable housing in the Metro Vancouver market is driving local buyers away from the market.

“Since mid-winter, home resales fell and availability of homes for sale improved,” the report says. “This moderation in housing activity, however, did not translate to weaker prices. In fact, it was quite the opposite; provincial bungalow values experienced a double-digit surge. This marked the strongest increase among Canada's major cities.”

"Lofty home prices in higher-end Vancouver neighbourhoods have put tremendous stress on the local housing market, which sets local demand up for a significant potential downturn," added Hogue.

Other local housing markets were reasonably affordable or slightly unaffordable, the report says.

Housing sector observers generally see the overall pace of housing activity, from starts to resales, slowing in the coming months, partly due to tighter mortgage regulations introduced earlier in the year and as pent-up demand gets absorbed.