

Housing Affordability Study Northern BC



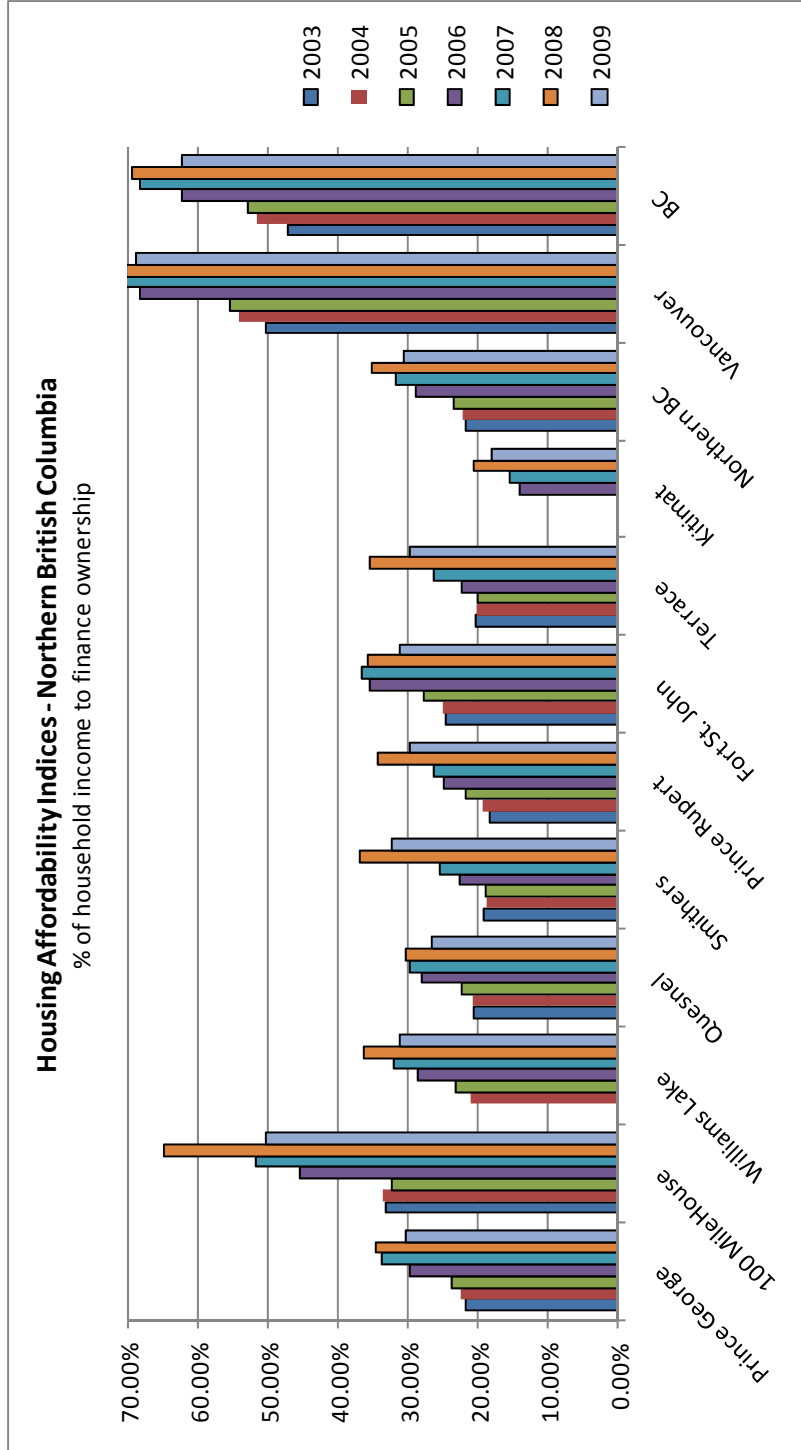
Prepared for: BC Northern Real Estate Board

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Housing Affordability Study



Notes:

1. Northern BC is comprised of the Cariboo, Bulkley Nechako, Fraser Fort George, Skeena Queen Charlotte, Kitimat Stikine, Peace River and Northern Rockies Regional Districts
2. Single detached home, December 2009, from the Real Estate Board of Greater Vancouver.
3. The criterion for selection for the 2009 HAI is 75 or more single family home sales per year.

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In 2009, the proportion of household income required to own a home in Northern British Columbia, like years prior, was less than half the burden of home ownership in Vancouver. The BC Northern Real Estate Board (BCNREB) Housing Affordability Index (HAI) is the estimated percentage of median household income necessary to finance ownership – mortgage costs, utilities, and municipal taxes and fees – of single-family homes. The 2009 HAI reveals that this proportion of income for Northern BC homeowners was 30.6%, while Vancouver homeowners required 69.0% of their household income to cover the expenses of owning a home. Historically, the principal reason for the considerable discrepancy in housing affordability in the North and in Vancouver is house prices, and 2009 was no exception; the average price of a single-family home sold in Northern BC was about \$226,000 compared with over \$760,000 in Vancouver.

Northern BC sees some relief

After an extended period of home ownership becoming less affordable due to escalating house prices, Northern BC finally experienced some relief in 2009. A 3.2% drop in average house prices from 2008 to 2009, coupled with a lowering of average mortgage rates by more than 1.4 percentage points during the same period, resulted in a decreasing proportion of income required to support the cost of homeownership in Northern BC. The greatest increase in affordability occurred in 100 Mile House, where house prices dropped by nearly 14 percent. Fort St. John and Area, the only region to see an increase in average house prices, experienced the smallest change in affordability, but still saw the cost of ownership fall from 34.8% to 31.1% of household income. This trend of affordability was not exclusive to the North; in fact, the majority of regions reviewed, most of which showed significant annual increases in the index over the last five years, including Vancouver and the BC average, saw noted decreases in 2009.

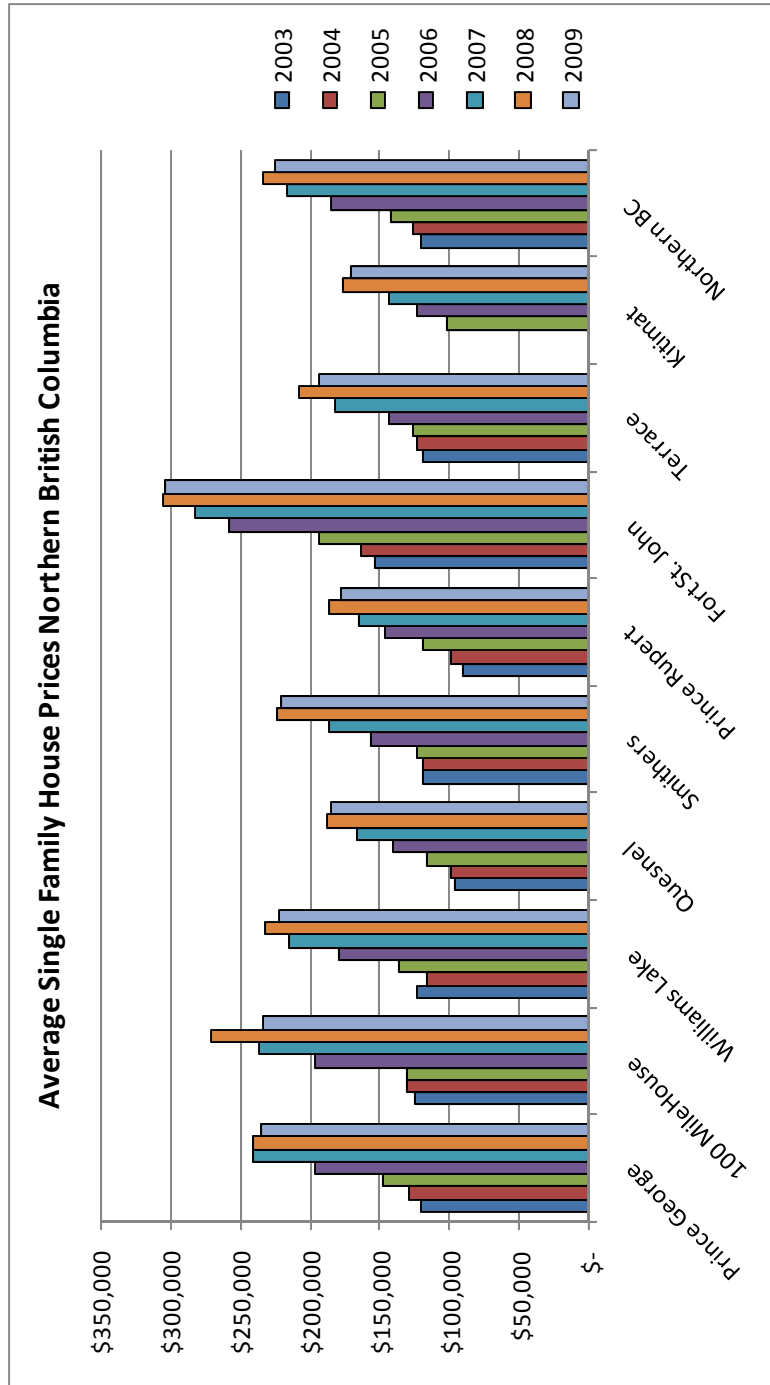
Economic condition and affordability

The province's struggling economy influenced two main factors that improved affordability for 2009. First, the general reduction in economic activity was reflected in fewer house sales in 2008 and the first part of 2009. As a result, prices declined in most municipalities. Second, the Federal Government lowered key lending rates in an effort to stimulate borrowing and spending. Mortgage rates in 2009 were markedly lower than in the previous year. Both of these key factors have proved to be temporary (prices and mortgage rates have since increased), an indication that the general improvement in housing affordability in 2009 may not endure.

2009 Indices—% of household income to finance ownership

Prince George	30.4%	100 Mile House	50.5%	Williams Lake	31.1%
Quesnel	26.8%	Smithers	32.4%	Prince Rupert	29.7%
Fort St. John	31.1%	Terrace	29.9%	Kitimat	18.2%

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Affordability continues to favour the North

While the affordability indices for selected Northern BC communities show a degree of variability, all are more favourable than the index for Vancouver. Kitimat, again, has the most affordable HAI (18.2%) among Northern communities, while home ownership affordability in 100 Mile House, despite its great improvement, continues to consume the highest proportion (50.5%) of median household income in the region. The disparity in affordability among BC communities arises, primarily, from differences in house prices and median incomes in each community. The relatively high index for 100 Mile House is a function of low reported incomes from the 2006 Census and housing prices that more than doubled since 2005. The low index for Kitimat reflects the lowest average house prices of all reported communities in Northern BC accompanied by the highest reported median income in the region, according to the 2006 Census.

Methodology

The methodology for constructing the Housing Affordability Indices for Northern BC is based on the construction of the RBC Housing Affordability Index. This index provides an indication of the relative costs of home ownership by measuring the proportion of median household income required to service the cost of local taxes and user fees, utilities and mortgage payments for the average-priced single family home on a lot less than an acre in size.

Median Household Income

Benchmark data for median household income are sourced from the 2006 Census, which provides income information for the year 2005 by community and region. Regional data for *Northern BC* and for *Fort St. John and Area* regions required special tabulation by STATCAN. Other community median household income data are obtained from the BCSTATS website. With the exception of *Fort St. John and Area*, community median income is assumed representative of regional median incomes. To estimate 2009 median household levels from 2005 figures, income data are adjusted by the growth rate of average weekly earnings in British Columbia.

Utility Costs

Benchmark data are drawn from the 2006 Survey of Household Spending for British Columbia, which does not provide a regional breakdown of utility costs, which include water, electricity and other fuel costs. Estimates for 2009 are obtained using growth rates of the Consumer Price Index component covering water, fuel and electricity. An estimate for the growth in the CPI for British Columbia excluding Vancouver and Victoria is calculated based on an arithmetic average for the CPI component for BC, Vancouver and Victoria. Data for these component CPIs is obtained through CANSIM from Statistics Canada

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Municipal Taxes and User Fees

Data for municipal taxes and user fees are obtained from the Ministry of Community Development Local Government Statistics. An estimate of municipal taxes is calculated by applying the residential tax rate to the average sale price for the region. Tax rates for Fort St. John and Area region and for Northern BC are calculated as weighted averages based on total sales. Tax estimates do not account for the Homeowners' Grant available in British Columbia. Representative user fees for most areas are drawn directly from the data. User fees for Fort St. John and Area and for the Northern BC composite are based on a weighted average of house sales.

Other Costs

Other costs that may be incurred in the purchase of a home include:

Lawyer or Notary Fees & Expenses	Home/Property Inspection
- searching title	Fire Insurance Premium
- investigating title	Sales Tax (if applicable)
- drafting documents	Property Transfer Tax
Land Title Registration fees	Harmonized Sales Tax
Survey Certificate and/or Title Insurance	Well test
Costs of Mortgage, including:	Septic test
- mortgage company's Lawyer/Notary	

House Prices

Average house prices for each region are derived from the BCNREB MLS® database system. The representative house is defined as a detached single family dwelling on a lot size of 1 acre or less.

Mortgage Costs

Mortgage costs are based on the average house price, with 25% down and amortization over 25 years at a 5 year fixed mortgage rate. The mortgage rate is based on Bank of Canada monthly data for a 5 year conventional mortgage.

Community Selection

In previous HAIs, BCNREB regions that reported 100 sales or more were identified as candidates for regional indices, but due to declining sales, and the distribution and variability of price data, a minimum threshold of 75 sales was deemed appropriate for the 2009 index.

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About the BC Northern Real Estate Board

The 400 members of BCNREB live and work in the area shown on the map on the cover page of this document.

The BCNREB is a non-profit society that serves its members and promotes the highest standards of professionalism. The members are licensed to sell real estate in BC and when accepted to membership become REALTORS®. This trademark indicates that the individual has pledged to abide by the REALTOR® Code of Ethics.

About the Author

Rory Conroy, a long-time resident of Prince George, currently resides in Vancouver. He graduated from the University of Northern British Columbia with a Commerce degree in 2002.

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Leslie Lax, BA, MA(Econ), constructed the Housing Affordability Index for Northern BC for the first 4 years. The current writer acknowledges the assistance of Mr. Lax.

The Housing Affordability Indices for Northern BC are based on the methodology used to construct the RBC Financial Group Housing Affordability Index. The valuable assistance received from staff at RBC Financial in developing the regional indices for British Columbia is gratefully acknowledged. Any errors, however, remain the responsibility of the author.

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