



Quebec's housing market heats up: RBC Economics

TORONTO, May 25, 2010 — Housing costs continued to rise in Quebec which made homes less affordable in the first quarter of this year, according to the latest housing report released today by RBC Economics Research.

“Strong activity in local markets like Quebec City contributed to record highs in sales of existing homes and property values in the province,” noted Robert Hogue, senior economist at RBC. “The downside of such frenzied activity is a further deterioration in affordability. All four of our housing affordability measures for Quebec now exceed long-term averages.”

The RBC Housing Affordability measure for Quebec, which captures the province's proportion of pre-tax household income needed to service the costs of owning a home, rose across all four housing classes in the first quarter of 2010. Affordability of the detached bungalow benchmark edged up to 34.8 per cent (up 0.5 of a percentage point over the last quarter), the standard townhouse to 29.1 per cent (up 0.4 of a percentage point), the standard condo to 28.6 per cent (up 0.4 of a percentage point) and the standard two-storey home to 41.6 per cent (rising 0.5 of a percentage point).

In the Montreal area, the cost of homeownership moved higher with RBC affordability measures for the region rising between 0.6 and 0.9 percentage points in the quarter. Home resales have been strong since the spring of 2009, with record highs set in the fall and winter. The RBC report indicates that strong market momentum will be difficult to maintain as deteriorating housing affordability levels will affect buying activity.

“Additional increases in home ownership costs could weaken housing demand in Quebec and pose challenges to the housing market rally,” Hogue explained.

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 report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the country, including Montreal and Quebec City. For these cities, RBC used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

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 in the first quarter. 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.
- **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.

For more information, please contact:

Robert Hogue, RBC Economics Research, 416-974-6192
Matt Gierasimczuk, Media Relations, RBC, 416-974-2124