



AFFORDABILITY AND CONFIDENCE IMPROVED IN ALBERTA'S HOUSING MARKET IN Q2 2015: RBC ECONOMICS

TORONTO, August 31, 2015 — While the fallout from the declines in the price of oil continues to loom large in Alberta's housing market, there were signs of stability taking hold in home resale activity amid further improvement in affordability in the second quarter of 2015, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

"Alberta's housing market is still feeling the impact from the oil price shock," said Craig Wright, senior vice-president and chief economist, RBC. "That said, the dust began to settle this spring, and we saw a gradual recovery in confidence which helped rebalance demand-supply conditions. Home re-sales started to turn around and sellers no longer rushed to list their properties."

According to the RBC report, prices remained under slight downward pressure for the most part in the second quarter, which helped keep the cost of homeownership in the province on a descending course across the province.

The RBC Housing Affordability measures, which capture a province's proportion of pre-tax household income needed to service the costs of owning a home at market values, declined across two of three segments in the second quarter in Alberta (a decrease in the measure represents an improvement in affordability). RBC's measures for Alberta fell 0.5 percentage points to 32.5 per cent for two-storey homes and 0.1 percentage points to 31.7 per cent for bungalows, while rising 0.2 percentage points to 20.1 per cent for condos.

Calgary market calmed in Q2

Q2 home re-sales in the Calgary area rebounded from the five-year low registered in the first quarter. There was also evidence of recovering confidence on the supply side in the form of a sharp drop in new listings.

RBC notes that stronger resales, albeit still 26 per cent below levels from a year ago, and fewer homes available for sale helped rebalance demand-supply conditions in Q2 after briefly tilting in favour of buyers earlier this year in the Calgary area. However, home prices did not respond immediately to this rebalancing and generally continued to edge slightly lower in the second quarter relative to the first quarter.

"Despite the roller-coaster ride the market has been through over the past few quarters, owning a home in Calgary at market price remains more affordable than it has been on average since the middle of the 1980s," Wright said. "Nonetheless, we expect that oil prices fluctuations are likely to exert a stronger influence on the area's market than housing affordability considerations over the short term."

The slight downward trajectory for home prices contributed to a third consecutive quarter of housing affordability improvement. RBC's measures for Calgary fell for both two-storey homes (by 0.8 percentage points to 31.9 per cent) and bungalows (by 0.4 percentage points to 32.4 per cent), while the measure for condos remained little changed (advancing by 0.1 percentage point to 19.5 per cent).

During Q2 2015, national affordability measures rose by 0.7 percentage points to 43.3 per cent for bungalows and by 0.4 percentage points to 48.3 per cent for two-storey homes. The measure for condominiums remained unchanged at 27.1 per cent.

RBC's Housing Affordability measure for the benchmark detached bungalow in Canada's largest cities in Q2 2015 is as follows: Vancouver 88.6 (up 3.0 percentage points from Q1 2015); Toronto 59.4 (up 2.1 percentage points); Montreal 36.0 (down 1.2 percentage points); Ottawa 35.4 (unchanged); Calgary 32.4 (down 0.4 percentage points); Edmonton 32.5 (down 0.4 percentage points).

The RBC Housing Affordability measure, which has been compiled since 1985, is based on the calculated costs of owning a detached bungalow (a reasonable property benchmark for the housing market in Canada) at market value. Alternative housing types are also presented, including a standard two-storey home and a standard condominium apartment. The higher the reading, the more difficult it is to afford a home at market values. For example, an affordability reading of 50 per cent means that home ownership costs, including mortgage payments, utilities and property taxes, would take up 50 per cent of a typical household's monthly pre-tax income.

It is important to note that RBC's measure is designed to gauge ownership costs that would be associated if an average household were to buy a home at present market values and interest rates. It is not an observation of the costs actually incurred by current owners, the vast majority of whom have bought in the past at significantly different values than those prevailing in the latest period.

Highlights from across Canada:

British Columbia: Vancouver skews provincial affordability

- Rapid home price increases in Vancouver significantly impacted housing affordability in British Columbia in the second quarter. RBC's measures for the province rose more than any other province, up 2.5 percentage points for two-storey homes, 2.1 percentage points for bungalows, and 0.4 percentage points for condominiums.

Saskatchewan: Signs of market recovery

- Signs of recovery in the home resale market were apparent in the second quarter, although resale activity remained far below levels in 2014. RBC's measures increased by 0.8 percentage points for both bungalows and two-storey homes, while the measure for condominiums decreased by 0.2 percentage points.

Manitoba: Affordability was a mixed bag

- Owning a bungalow or condominium became less affordable in Q2, while owning a two-story home became more affordable. RBC's measures rose modestly for both bungalows and condominiums at 0.7 percentage points, while the measure for two-storey homes fell by 0.5 percentage points.

Ontario: Affordability picture continues to be split

- Owning a single-detached home at market prices in the province has become less and less affordable, while owning a condominium appears to be within reach. RBC's measures showed further deterioration for bungalows (rising by 1.1 percentage points) and two-storey homes (up 0.7 percentage points), while condominiums remain fairly steady (down only 0.1 percentage points).

Quebec: Improving affordability trends persist

- Housing affordability continued to improve in Quebec in Q2. RBC's affordability measures fell in all three categories for the third consecutive quarter and by some of the largest margins across all the provinces. Two-storey homes fell by 1.1 percentage points, bungalows fell by 0.9 percentage points, and condominiums decreased by 0.5 percentage points.

Atlantic Canada: Soft demand-supply conditions despite favourable affordability

- Softness in the housing market drove homeownership costs down in Q2. RBC's affordability measures fell across all categories (between 0.3 and 0.7 percentage points), adding to the continuous decline registered since late 2013.

The full RBC Housing Trends and Affordability report is available online, as of 8:00 a.m. ET today, at rbc.com/economics/market.

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