



## **ALBERTA HOUSING MARKET MOST AFFORDABLE IN CANADA: RBC ECONOMICS**

**TORONTO, February 24, 2011** – Alberta’s housing market officially became the most affordable in Canada in the fourth quarter of 2010, according to the latest Housing Trends and Affordability report released today by RBC.

Thanks to lower mortgage rates and further softening in home prices, RBC’s Affordability Measures for Alberta fell yet again in the fourth quarter, by 1.0 to 2.4 percentage points, extending their long strings of declines since late 2007.

“Alberta saw a notable downswing in demand for housing last spring and early summer, giving buyers the upper hand and pushing prices down,” said Robert Hogue, senior economist, RBC. “Alberta’s reign as the most affordable housing market may be short lived, however. Demand has shown more vigour in recent months, alongside a provincial economy that is gaining more traction, and Alberta’s market has become better balanced. We expect that this will stem price declines this year and erase a potential offset to the negative effect of a projected rise in interest rates on affordability.”

The RBC Housing Affordability Measures for Alberta, which capture the province’s proportion of pre-tax household income needed to service the costs of owning a home, eased across all housing categories in the fourth quarter. The measure for the benchmark detached bungalow moved down to 30.9 per cent (a drop of 2.4 percentage points from the previous quarter), the standard condominium to 20.3 per cent (down 1.0 percentage points) and the standard two-storey home to 34.4 per cent (down 2.2 percentage points).

The RBC report notes that gradual and steady improvements in Calgary’s housing demand have recently started to bolster market conditions as home resales increased appreciably since June which helped trim down the slack that kept buyers in the driver’s seat.

A return to more balanced market conditions in Calgary, however, did not succeed in reversing the tide in the fourth quarter of 2010 as home prices continued to weaken for the most part in the fourth quarter. Nonetheless, this contributed to further material improvement in affordability. The RBC Measures for Calgary again fell the most among Canada’s largest urban markets, declining by 0.9 to 3.1 percentage points.

“Affordability in the Calgary area is now the best in almost six years and this attractive level of affordability will support further increases in demand as the local economy picks up steam in the year ahead,” added Hogue.

Elsewhere in the country, a majority of provinces saw improvements in affordability in the fourth quarter. Only the standard two-storey benchmark became less affordable in Ontario and Quebec, as did the standard condominium apartment in Quebec and the Atlantic region.

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 in Canada. Alternative housing types are also presented including a standard two-storey home 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:** Buying a home in B.C. became slightly more affordable in the fourth quarter of 2010, due primarily to a small drop in mortgage rates. After experiencing some declines in the previous quarter, home prices rose modestly for most housing categories; condominium apartments bucked the trend, however, and depreciated slightly. Prices were supported by a tightening in market conditions with home resales picking up smartly following substantial cooling in the spring and summer that saw sellers lose their edge in setting property values. Demand and supply in the province are judged to be quite balanced at this point. RBC’s Affordability Measures fell between 0.8 and 1.0 percentage points in the fourth quarter which came on the heels of much more substantial drops (1.7 to 4.8 percentage points) in the third quarter. Notwithstanding these declines, affordability remains poor and will weigh on housing demand going forward.
- **Saskatchewan:** The provincial housing market finished 2010 on an enviable note as affordability improved even though home prices, for the most part, rose slightly in the fourth quarter. Generally, the price increases more than reversed declines in the previous period but were too small to negate the beneficial effect of lower mortgage rates. The home resale market gained back solid forward momentum in the second half of 2010, notwithstanding some softening in the final months, which

re-established a stronger balance between demand and supply. The RBC Measures fell between 0.6 and 1.1 percentage points in the quarter, although the levels continue to be modestly above historical averages in the province. RBC projects the Saskatchewan market will take its current affordability position in stride as a rebound in provincial economic growth and continued strong migration inflows will support housing demand this year.

- **Manitoba:** Manitoba's market enjoyed the best of both worlds in the fourth quarter of 2010 as home prices were higher but ownership costs were lower. Thanks to lower mortgage rates in the quarter and continued growth in household income, the negative effect of small gains in property values on affordability was more than offset. The RBC Measures eased between 0.1 and 0.6 percentage points in the fourth quarter, keeping Manitoba among the only two provincial markets in Canada (with Alberta) in which Affordability Measures stand below long-term averages for all housing categories. Sales of existing homes ramped up considerably in the fall, reaching near historical peaks by December. Housing demand is being boosted by the strongest net international immigration in the province since the mid 1950s and by improved job prospects – Manitoba boasts the lowest unemployment rate in Canada (as of the fourth quarter of 2010) and RBC expects this to continue in 2011.
- **Ontario:** Concerns last year that the housing market would falter have now largely dissipated as home resale activity picked up smartly in the fall and property values resumed their appreciation trend in the closing months of 2010. The slowdown in market activity in the spring and summer last year largely reflected various transitory factors – including the introduction of the HST and changes in mortgage lending rules – that brought demand forward to the start of the year. The silver lining of this slowdown, however, has been an improvement in affordability. The RBC Measures edged lower for the second consecutive time for most housing categories in the fourth quarter, down by 0.2 to 0.3 percentage points. The only exception was two-storey homes, which became marginally less affordable amid notable price gains. RBC expects affordability will play a neutral role for demand in Ontario with RBC Measures close to their long-run average.
- **Quebec:** Higher home prices in the fourth quarter of 2010 caused some deterioration in affordability following meaningful improvement in the previous period. Home resales strengthened in the latter part of 2010, contributing to tightened market conditions that gave sellers a stronger hand in negotiating prices, particularly for two-storey homes. Price gains and rising household income dominated the positive effects of lower mortgage rates on affordability in the fourth quarter for all housing types except detached bungalows (where a small improvement was registered). RBC Measures rose marginally by 0.1 to 0.2 percentage points for two-storey homes and condominium apartments, and fell by

0.6 percentage points for detached bungalows; however, the levels of all Measures still modestly exceeded long-term averages in the province. RBC expects that modestly strained affordability in Quebec will further deteriorate in the period ahead when interest rates rise.

- **Atlantic Canada:** Home resale activity sputtered late in 2010 and reversed some of the gains achieved at the end of the summer and early fall. This has not disrupted property values in the fourth quarter as home prices generally appreciated; yet, housing affordability improved for most housing categories because declines in interest rates provided a dominant offset. Only condominium apartments saw a slim deterioration in affordability as the RBC Measures rose by 0.1 percentage point compared with declines of 0.5 percentage points for detached bungalows and two-storey homes. Affordability levels continue to be mostly attractive in Atlantic Canada from both historical and cross-country perspectives. RBC projects that is likely to remain so in the near-term despite our expectation of higher interest rates. Market conditions have recently swung in favour of buyers which will exert downward pressure on prices in coming months.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today at [www.rbc.com/economics/market/pdf/house.pdf](http://www.rbc.com/economics/market/pdf/house.pdf).

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