



ALBERTA'S HOUSING AFFORDABILITY REMAINS STABLE AND ATTRACTIVE: RBC ECONOMICS

Calgary market transitioning into a more vigorous phase

TORONTO, May 20, 2011 — Unlike most other major centres across Canada, housing affordability in Alberta remained stable in the first quarter of 2011, according to the latest Housing Trends and Affordability report issued by RBC Economics Research.

Until the fall of 2010, abundant availability of homes for sale in the face of sluggish demand kept housing prices firmly under control. Resulting stable or slightly declining property values contributed to a substantial improvement in affordability in Alberta last year.

“The Alberta market continued to be stuck in low gear in the first quarter of 2011. Sales of existing homes and construction of new housing units showed very modest increases,” said Robert Hogue, senior economist, RBC. “While market conditions have become more balanced in recent months, owning a home doesn’t seem to be getting more expensive in the provincial market at this stage. Affordability levels are still looking quite attractive.”

RBC’s 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, remained relatively unchanged and below their long-term averages in the first quarter of 2011. The measure for the benchmark detached bungalow in the province moved up to 31.3 per cent (an increase of 0.4 of a percentage point from the previous quarter), the standard condominium stayed flat at 20.2 per cent and the standard two-storey home fell to 34.2 per cent (down by 0.2 of a percentage point).

RBC’s report notes that there are signs that the Calgary housing market is finally overcoming its protracted slump. Home resales in the area grew for the second consecutive period in the first quarter, the most growth since the middle of 2009, helping to remove market slack and setting a healthier balance between demand and supply.

“Calgary home prices have yet to break out of their listless trends, but they rose at their fastest rate in more than a year in the first quarter, with detached bungalows leading the way,” said Hogue. “Firmer market conditions and higher prices had only limited impact on Calgary’s affordability, which remains among the most attractive of Canada’s major cities.”

The majority of Canadian markets experienced weakened affordability in the first quarter of 2011. Most notable was the sizeable deterioration in British Columbia. More specifically, Vancouver saw significant gains in property values, which drove the already elevated cost of homeownership even higher. Quebec’s homebuyers also faced noticeable rises in ownership costs, while those in Atlantic Canada saw their affordability advantage somewhat diminish. The picture remained mixed in other areas of the country, with Ontario, Alberta and Saskatchewan experiencing ups and downs in ownership costs, depending on the housing type.

“Despite the latest erosion in affordability, provincial levels generally continue to stand near their long-term averages, suggesting that owning a home remains affordable or, at worst, slightly unaffordable across Canada – with Vancouver being a notable exception,” said Hogue.

RBC’s housing affordability measure for a detached bungalow in Canada’s largest cities is as follows: Vancouver 72.1 per cent (up 3.4 percentage points from the last quarter), Toronto 47.5 per cent (up 0.8 of a percentage point), Montreal 43.1 per cent (up 2.0 percentage points), Ottawa 39.0 per cent (up 0.4 of a percentage point), Calgary 35.9 per cent (up 0.9 of a percentage point) and Edmonton 31.5 per cent (up 0.5 of a percentage point).

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:** Strong home price increases reduced affordability in the province in the first quarter. The RBC measures for British Columbia rose between 0.8 of a percentage point and 1.8 percentage points, the most significant increases of all the provinces. The lack of affordability will continue to weigh on local demand and could potentially cause painful market disruptions in the period ahead.
 - Vancouver affordability continued to wane, as measures climbed between 1.0 percentage point and 3.4 percentage points, and moved closer to all-time highs.
- **Saskatchewan:** Following solid performance in the second half of last year, some softening in property values in the early months of 2011 led to a further decrease in the cost of owning a home in Saskatchewan. The RBC measures for bungalows and two-storey homes fell by 0.7 of a percentage point in the first quarter, representing a third consecutive quarterly improvement in affordability. Condominium apartments bucked this trend and saw their affordability modestly deteriorate in the face of higher prices.
- **Manitoba:** Housing affordability continues to be attractive in Manitoba, with little change registered in the first quarter. Measures rose by 0.1 of a percentage point for detached bungalows, declined by 0.2 of a percentage point for condominium apartments and stayed even for two-storey homes. Manitoba is still one of only two provincial markets (alongside Alberta) where affordability measures stand below long-term averages for all housing categories.
- **Ontario:** In the first quarter of 2011, home resales in Ontario increased at a sustained and yet subdued rate, while home prices rose modestly overall. Affordability stood very close to long-term averages, leaving homebuyer demand largely unchanged in the province. RBC measures went up for bungalows and condominiums (by 0.5 and 0.1 of a percentage point, respectively), but down for two-storey homes (by 0.6 of a percentage point). Market activity in Ontario is likely to face some headwinds in coming months, given the latest changes in mortgage lending rules and the expected rise in interest rates.
 - Somewhat tense market conditions in Toronto further fuelled appreciation in property values and led to an erosion in affordability, as RBC measures for detached bungalows and condominium apartments rose by 0.8 and 0.1 of a percentage point respectively.

- Ottawa measures increased modestly for detached bungalows and two-storey homes, while they remained the same for condominium apartments. As most measures have moved above long-run averages, any further deterioration in affordability will likely act to restrain demand in the area.
- **Quebec:** Quebec homebuyers faced higher ownership costs in the first quarter, which weighed significantly on affordability. RBC measures rose by 1.1 percentage points for detached bungalows and 1.3 percentage points for two-storey homes, both representing the second largest increases behind those recorded in British Columbia. All measures in Quebec stand slightly above their long-term averages, corresponding to a moderate strain in affordability in the province.
 - Montreal's affordability measures rose between 0.1 of a percentage point and 2.8 percentage points in the first quarter of 2011, pushing levels for all housing types above national and long-term averages for the area.
- **Atlantic Canada:** In the first quarter, rebounding housing market activity has boosted property values in Atlantic Canada. Home resales in the region climbed solidly for the second consecutive period and further reversed some of the declines that occurred last year. The downside has been a modest fall in the region's affordability position. Affordability measures for Atlantic Canada increased between 0.6 and 0.9 of a percentage point in the latest period, although levels hovered near long-term averages and remained among the lowest in the country.

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.

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