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ALBERTA HOUSING AFFORDABILITY IMPROVEMENT POWERED BY LOWER UTILITY COSTS: RBC ECONOMICS

TORONTO, August 27, 2012 — Significant drops in prices for electricity and natural gas in the second quarter of 2012 further solidified Alberta's position as the provincial market with the lowest home ownership costs across Canada as a share of household income, according to the latest Housing Trends and Affordability Report, issued today by RBC Economics Research.

"Alberta experienced a 17 per cent decline in utility costs, which was the largest contributor to across-the-board improvements in housing affordability in the most recent quarter," said Robert Hogue, senior economist, RBC. "Attractive affordability and a vibrant provincial economy are providing powerful incentives for Alberta homebuyers – second quarter home resales were at the best level in five years, surging 18 per cent over the same period last year."

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 at going market value, declined between 0.3 and 0.6 percentage points (a decline in the measure represents improvement in affordability).

The measure for both the standard two-storey home and condominium apartment categories decreased by 0.6 percentage points to 34.8 per cent and 19.7 per cent respectively. The measure for the benchmark detached bungalow declined by 0.3 percentage points to 32.0 per cent. In all cases, levels stood well below their long-run average.

Calgary area affordability enjoying the best of all worlds

Much like the rest of the province, a notable drop in utility costs in the Calgary-area market provided some unusual help to affordability in the area in the second quarter. Utilities are a small component of ownership costs and typically do not sway affordability. However, the swift reversal of earlier electricity rate increases led to a substantial quarterly decline in utilities – more than enough to move the affordability needle.

"Calgary's housing market recently enjoyed stronger home resales and building activity, as well as moderately rising prices and attractive affordability," noted Hogue. "Such a combination is a rare feat and it follows years of sluggish performance in the aftermath of the area's mid-2000's boom."

In the second quarter, RBC measures for Calgary edged lower for condominium apartments by 0.6 percentage points to 21.6 per cent and for two-storey homes by 0.4 percentage points to 37.2 per cent. The measure for detached bungalows remained unchanged at 36.7 per cent.

Where housing affordability stands in Canada

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities is as follows: Vancouver 91.0 per cent (up 2.2 percentage points from the previous quarter), Toronto 54.5 per cent (up 0.9 percentage points), Ottawa 41.9 per cent (unchanged), Montreal 40.4 per cent (down 1.0 percentage points), Calgary 36.7 per cent (unchanged) and Edmonton 32.4 per cent (down 0.1 percentage points).

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) 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 costly it is to afford a home based on going market values. 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: Affordability situation less severe outside Vancouver
Owning a home at market prices stretched the budgets of B.C.'s households even more in the second quarter of 2012. Affordability remains poor in the province, with RBC measures rising between 0.2 and 1.2 percentage points, although this largely reflects the extremely unaffordable conditions in the Vancouver-area market. The situation is much less severe elsewhere in the province.

- The Vancouver-area continues to be the least affordable market in Canada by a considerable margin. RBC's measures deteriorated further for all types of housing in the area, standing close to the worst levels on record.

Saskatchewan: Strong price increases dent affordability
Brisk housing activity over the past year has considerably tightened market conditions and applied upward pressure on home prices in the province, leading to some of the bigger deteriorations in affordability across Canada in the second quarter. The RBC measure for two-storey homes surged by 2.8 percentage points, while measures for condominium apartments and detached bungalows climbed 1.6 and 1.4 percentage points respectively.

Manitoba: Homeownership costs remain manageable despite slip in affordability
Strong activity in Manitoba's housing market in the second quarter led to a notable erosion in affordability. Still, households face some of the lowest ownership costs as a share of their income in Canada. RBC measures rose between 0.4 and 1.9 percentage points in the province, to stand slightly above their historical average.

Ontario: Slowly deteriorating affordability trends live on
Ontario's homeownership costs rose in the most recent quarter, extending the gradually rising trend seen since 2009. RBC measures increased between 0.1 and 0.8 percentage points, modestly exceeding their long-term average.

- The Toronto area market saw modest deterioration in affordability for the second straight quarter. Homeownership costs consumed a larger share of household income in comparison to the historical average, revealing the presence of some greater-than-usual stress in the market, though mostly in single family home categories. Such stress will weigh on homebuyer demand in the period ahead. Meanwhile, market activity has cooled several degrees in recent months and the earlier tightness has eased.
- There was no change in homeownership costs as a share of household income in the Ottawa area market in the second quarter. RBC measures continue to stand above their long-run average and near their historic peaks, representing a greater-than-normal strain on Ottawa homebuyers. While second quarter existing home sales recorded the third-best ever pace in the area, the market's momentum has shifted down from the brisk pace recorded last year.

Quebec: Affordability trending sideways
Affordability measures in the province trended sideways in the second quarter, moving in the opposite direction of changes registered in the previous period. Following widespread increases earlier this year, RBC measures declined for detached bungalows (0.7 percentage points) and condominium apartments (0.5 percentage points), while the measure for two-storey homes edged higher by 0.2 percentage points for the second consecutive quarter.

- In Montreal, the RBC measures remain roughly in line with historic norms for most housing categories. However, the measure for the two-storey homes segment remained notably above its long-term average, indicating that greater-than-usual tensions will likely persist.

Atlantic Canada: Long-standing favourable affordability position maintained
Moderate affordability deterioration in the Atlantic region continued in the second quarter, with RBC measures rising between 0.3 and 0.7 percentage points, within close range of their long-run averages.

The full RBC Housing Trends and Affordability report is available online, as of 7 a.m. ET today, at rbc.com/economics/market/.

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