



## ATLANTIC CANADA'S HOUSING MARKET PERSEVERES: RBC ECONOMICS

**TORONTO, February 24, 2011** — Atlantic Canada's home-resale activity sputtered in late 2010, but attractive affordability levels will support demand in the period ahead, according to the latest Housing Trends and Affordability report issued today by RBC Economics.

The RBC report notes that although the Atlantic region's resale market weakened in the closing months of last year, property values remained unscathed as prices generally appreciated. These higher prices, however, did not undermine affordability in the region as declines in interest rates provided a dominant offset and lowered the cost of homeownership for most housing categories.

"Swings in market conditions late last year favoured buyers and will exert some downward pressure on prices in the near term," said Robert Hogue, senior economist, RBC. "Despite looming interest rate increases, affordability levels in Atlantic Canada will widely continue to be attractive in the near term from historical and cross-country perspectives."

RBC's fourth quarter Housing Affordability Measures for Atlantic Canada, which capture the region's proportion of pre-tax household income needed to service the costs of owning a home, declined for both detached bungalows and two-storey homes by 0.5 percentage points to 31.4 and 36.5 per cent, respectively. However, the measure rose marginally by 0.1 percentage point to 25.8 per cent for condominium apartments which represents a slight deterioration in affordability.

Elsewhere in the country, a majority of provinces saw improvements in affordability in the fourth quarter, most notably in Alberta where falling home prices once again contributed to lower the bar for affording a home. Only the standard two-storey benchmark became less affordable in Ontario and Quebec, as did the standard condominium apartment in Quebec.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 68.7 per cent (down 0.4 percentage points from the last quarter), Toronto 46.8 per cent (down 0.5 percentage points), Montreal 41.3 per cent (down 0.4 percentage points), Ottawa 38.7 per cent (up 0.5 percentage points), Calgary 34.9 per cent (down 3.1 percentage points) and Edmonton 31.0 per cent (down 2.4 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. 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.
- **Alberta:** Alberta officially became the most affordable provincial market in the country in the fourth quarter, according to the RBC Measures which fell once again by 1.0 to 2.4 percentage points, extending their declines since late-2007. In addition to the lower mortgage rates, the further depreciation of home prices contributed to lowering homeownership costs. Property values were negatively affected by a substantial downswing in demand in the spring and early summer, which put buyers in the drivers' seat. The significant improvement in affordability is near the end of its line, however, as demand has shown more vigour in recent months – alongside a provincial economy that is gaining more traction – and the market has become better balanced. RBC expects that this will stem price declines this year, thereby removing a potential offset to the negative effect of projected rise in interest rates on affordability.
- **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.

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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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