



ATLANTIC CANADA'S HOUSING AFFORDABILITY IMPROVES AS MARKET ACTIVITY REVIVES: RBC ECONOMICS

TORONTO, November 29, 2010 — Housing affordability in Atlantic Canada improved in the third quarter as market activity picked up following a marked cooling in the spring when home resales fell back to the lows reached at the end of 2008, according to the latest Housing Trends and Affordability report released today by RBC Economics Research.

“The recent strengthening in East Coast home resales has tightened up market conditions a little, but the earlier loosening had a dominant effect on property values in the third quarter which modestly declined across the region. This result, along with the drop in mortgage rates, contributed to lower homeownership costs,” said Robert Hogue, senior economist, RBC. “Overall, housing affordability continues to be quite attractive in Atlantic Canada.”

The report notes that RBC's Housing Affordability Measures for Atlantic Canada moved down between 1.0 and 1.5 percentage points in the third quarter and returned roughly to the levels experienced in mid- to late-2009.

The RBC Housing and 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, decreased across all housing types in the third quarter of 2010 (a decline in measure means homes are more affordable). The measure for the benchmark detached bungalow eased to 31.4 per cent (a decrease of 1.0 percentage points from the previous quarter), the standard condominium to 25.4 per cent (down 1.5 percentage points) and the standard two-storey home to 36.5 per cent (down 1.4 percentage points).

All provinces saw improvements in affordability in the third quarter, particularly in British Columbia where elevated property values amplified the effect of the decline in mortgage rates on monthly mortgage charges. Ontario also experienced some notable drops in homeownership costs, pushing down the RBC Measures below their long-term average in the province for bungalows and condominiums. Alberta and Manitoba are the only two provinces where the RBC Measures stand below their long-term average in all housing categories, indicating little stress in these markets.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 68.8 per cent (down 5.4 percentage points from the last quarter), Toronto 47.2 per cent (down 3.0 percentage points), Montreal 41.7 per cent (down 1.3 percentage points), Ottawa 38.2 per cent (down 2.9 percentage points), Calgary 37.1 per cent (down 2.0 percentage points) and Edmonton 32.7 per cent (down 2.0 percentage points).

The RBC Housing Trends and 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:** Lower home prices and declining mortgage rates brought the B.C. housing market some welcomed reprieve in the third quarter from the significant deterioration in affordability recorded since the middle of 2009. Amid much cooler resale activity through the spring and summer and greater availability of properties for sale, home prices either fell, particularly for bungalows, or remained stable in the case of condominium apartments. The RBC Housing Affordability Measures for B.C. dropped between 1.8 and 5.0 percentage points, representing the largest declines since the first quarter of 2009; however, all remained significantly above long-term averages. Poor affordability is likely to continue to weigh on housing demand in the province in the period ahead.
- **Alberta:** Despite recording substantial affordability improvements since early 2008, housing demand in Alberta is still a shadow of its former self from just a few years ago and there are few signs that it is picking up meaningfully. The RBC Measures eased between 0.8 and 1.8 percentage points, more than reversing modest rises in the second quarter. Homeownership is among the most affordable in Canada both in absolute terms and relative to historical averages. RBC notes such a high degree of affordability bodes well for a strengthening housing demand once the provincial job market sustains more substantial gains.

- **Manitoba:** Manitoba's housing resales picked up smartly in September and October, swiftly turning the page on a particularly weak summer period, with provincial homebuyers taking advantage of improving affordability. RBC's Measures fell between 0.9 and 2.3 percentage points, reversing one-half to three-quarters of the increase that occurred since the spring of 2009. Manitoba is one of only two provinces, with Alberta, where the measures for all housing types are currently below their long-term averages, which will be a supportive factor for demand going forward.
- **Ontario:** After four consecutive quarterly increases, the cost of homeownership declined in Ontario in the third quarter thanks to lower mortgage rates and some softening in property values. RBC's Measures fell between 1.3 and 2.4 percentage points, fully reversing the increase in the second quarter. Existing home sales ended their precipitous slide confirming RBC's earlier expectation that the slowdown in activity through the spring and summer largely reflected various transitory factors – including the HST and changes in mortgage lending rules – that spurred demand at the start of this year. With the market now back in balance, the recent softness in home prices will likely prove to be a healthy recalibrating following a strong rally.
- **Quebec:** The Quebec housing market is making its way towards more stable activity levels after plummeting to six-year lows at the end of 2008 and then surging to all-time highs at the start of 2010. Supporting this trend in the near term is an improvement in affordability in the third quarter. Following four consecutive increases, the RBC Measures for the province fell 1.4 to 1.8 percentage points depending on the housing type, but still remain close to the pre-downturn peaks and above their long-term average, which will likely restrain growth in demand in the period ahead.

The full RBC Housing 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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