



MANITOBA HOUSING AFFORDABILITY IN THE NEUTRAL ZONE: RBC ECONOMICS

TORONTO, August 22, 2011 — Although it became a little more difficult to own a home in Manitoba, housing affordability remained neutral in the second quarter of 2011, according to the latest Housing Trends and Affordability report issued today by RBC Economics Research.

RBC's housing affordability measures for Manitoba rose between 0.7 and 1.2 percentage points in the quarter but remained either below or just slightly above their long-term averages. These levels keep Manitoba in the middle of the pack relative to the rest of Canada.

"Modest deterioration in Manitoba's measures could have contributed to some cooling in home resale activity during the spring. However, major flooding in the province likely caused more significant disruption in certain areas," said Robert Hogue, senior economist, RBC.

Prior to spring, Manitoba's housing market registered its best first quarter ever for existing home sales (on a seasonally adjusted basis), led by strong gains in Winnipeg.

RBC's housing affordability measures for Manitoba, which capture the province's proportion of pre-tax household income needed to service the costs of owning a home at the going market value, increased modestly across all housing types in the second quarter of 2011 (a rise represents a loss in affordability). The measure for the benchmark detached bungalow in the province rose significantly to 36.6 per cent (an increase of 1.2 percentage points from the previous quarter), the standard condominium to 21.8 per cent (up 0.7 percentage points) and the standard two-storey home to 39.2 per cent (a gain of 1.0 percentage point).

RBC's housing affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 92.5 per cent (up 10.4 percentage points from the previous quarter), Toronto 51.0 per cent (up 2.0 percentage points), Montreal 42.6 per cent (up 1.4 percentage points), Ottawa 41.2 per cent (up 1.3 percentage points), Calgary 37.1 (up 0.6 percentage points), and Edmonton 33.8 per cent (up 0.6 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 two-storey home and a standard condominium. The higher the reading, the more costly it is to afford a home at the going market price. 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 in the province deteriorated as home values appreciated further in the second quarter. The primary contributor to this significant decline was hefty price gains for bungalows. Measures for B.C. rose between 1.0 and 5.7 percentage points in the quarter – the largest increases in the country.
 - Vancouver’s sky-high market valuations drove B.C.’s affordability measures to their worst levels on record at 92.5 per cent.
- **Alberta**: Housing affordability continues to be attractive in Alberta despite rises in measures – the lowest among provinces between 0.5 and 1.3 percentage points. Homebuyer demand has been stuck in low gear; existing home sales, new home construction and home prices continue to exhibit flat trends. Going forward, attractive affordability, robust growth and rising employment will act to shore up confidence in Alberta’s housing market.
 - Home resales in Calgary edged lower in the second quarter, providing little pressure on prices and affordability overall. The RBC affordability measures rose between 0.4 and 1.1 percentage points, representing the smallest deterioration among major cities. Strong economic fundamentals in both Calgary and Alberta will support homebuyer demand in the period ahead.
- **Saskatchewan**: Price increases for two-storey homes and bungalows weighed on Saskatchewan’s housing affordability in the second quarter. RBC measures for these two categories rose the most in more than two years – by 2.8 percentage points and 2.0 percentage points, respectively. At this point, affordability levels have moved further above long-term averages for the province, potentially causing some strain for homebuyers.
- **Ontario**: Although existing home sales eased in the second quarter, sellers remained in the driver’s seat in many local Ontario markets, leading to continued house price increases. This raised the cost of homeownership in the province. RBC measures increased between 1.1 and 2.0 percentage points, further reversing some of the declines registered in the latter half of last year. Still, affordability in the province is not being overly strained.
 - In the second quarter, slim availability of homes for sale in Toronto allowed for sellers to have a strong hand in the price-setting process. In spite of a decline in affordability, Toronto-area homebuyers remained motivated. Second quarter RBC measures rose between 1.2 and 2.9 percentage points.
 - So far this year, homebuyer demand has softened in the Ottawa area. Second quarter costs of owning a home rose for the third straight quarter, as property values appreciated moderately across all housing types. RBC measures for Ottawa increased between 0.7 and 1.3 percentage points this quarter.
- **Quebec**: Affordability has been a mixed bag in Quebec so far this year. The cost of owning freehold homes slipped for two successive quarters and the cost of owning a condominium apartment did not change materially. In the second

quarter, RBC measures for bungalows and two-storey homes climbed 1.0 and 1.8 percentage points, respectively. The measure for condos barely rose (up only 0.2 percentage points). Divergent affordability patterns were reflected in home prices.

- It has become increasingly more difficult to afford a home in the Montreal area. In the second quarter, the RBC measures rose for all housing types, indicating further deteriorating affordability. Over the past year, price increases led to Montreal losing its status as one of Canada's most affordable cities. This did not seem to concern homebuyers as they increased their purchases of homes for the second consecutive quarter.
- **Atlantic:** Rather flat market activity kept gains in property values in Atlantic Canada at bay, which limited the deterioration in housing affordability in the second quarter. RBC measures rose between 0.9 and 1.2 percentage points across the region. Atlantic Canada continues to have a long-standing affordability advantage relative to most other Canadian markets. The Atlantic Canada market was resilient during the 2008-2009 downturn and is well positioned to weather possible adversity going forward.
 - Several local markets in the region experienced a slowing in resale activity, including Halifax, St. John's and Saint John. Moncton, on the other hand, saw meaningful gains in the second quarter.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today, at www.rbc.com/economics/market/.

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