



## QUEBEC'S HOUSING AFFORDABILITY EBBS IN FOURTH QUARTER: RBC ECONOMICS

**TORONTO, February 24, 2011** — Higher home prices in the final quarter of 2010 contributed to some deterioration in Quebec's housing affordability following meaningful improvements in the previous quarter, according to the latest Housing Trends and Affordability report released today by RBC Economics.

"Home resales improved in the latter part of last year contributing to a tightening in the market that ultimately gave sellers a stronger hand in negotiating prices, particularly for two-storey homes," said Robert Hogue, senior economist, RBC. "We expect that the modestly strained affordability levels in Quebec will further deteriorate in the period ahead once interest rates rise."

The RBC Housing Affordability Measures for Quebec capture the provinces proportion of pre-tax household income needed to service the costs of owning a home (a decrease represents improvement in affordability).

Price gains dominated the positive effects of lower mortgage rates and rising household income on affordability in the fourth quarter for all housing types except detached bungalows (where a small improvement was registered).

The RBC Measure for the standard two-storey home rose 0.1 percentage points from the previous quarter to 41.9 per cent and for the standard condominium by 0.2 percentage points to 28.9 per cent, while the benchmark detached bungalow moved down to 34.5 per cent (a fall of 0.6 percentage points). The levels of all Measures modestly exceeded long-term averages in the province.

The RBC report notes that property values in the Montreal-area market continued to appreciate steadily in the latter part of 2010 despite the lack of clear direction in resale activity since last summer and a recent surge in the supply of homes available for sale.

"The listless housing demand likely reflects both the erosion in housing affordability in the Montreal area this past year and the tremendous strength that was seen in early 2010, which is taking longer to unwind," added Hogue.

Although there were modest declines in the measures for two-storey homes (down 0.2 percentage points) and detached bungalows (down 0.4 percentage points), levels for all housing types remain above long-term averages and where they were a year ago.

“Strained affordability is holding back some Montreal homebuyers at this point,” noted Hogue. “That being said, market conditions have become less favourable to sellers, which will likely minimize further near-term price appreciation.”

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 and the Atlantic region.

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 price 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.
- **Atlantic Canada:** Home resale activity sputtered late in 2010 and reversed some of the gains achieved at the end of the summer and early fall. This has not disrupted property values in the fourth quarter as home prices generally appreciated; yet, housing affordability improved for most housing categories because declines in interest rates provided a dominant offset. Only condominium apartments saw a slim deterioration in affordability as the RBC Measures rose by 0.1 percentage point compared with declines of 0.5 percentage points for detached bungalows and two-storey homes. Affordability levels continue to be mostly attractive in Atlantic Canada from both historical and cross-country perspectives. RBC projects that is likely to remain so in the near-term despite our expectation of higher interest rates. Market conditions have recently swung in favour of buyers which will exert downward pressure on prices in coming months.

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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