



HOUSING AFFORDABILITY SLIPS IN QUEBEC: RBC ECONOMICS

Montreal losing its status as an affordable market

TORONTO, May 20, 2011 — Quebec's housing market faced higher ownership costs in the first quarter of 2011, following modest declines in the latter half of 2010, according to the latest Housing Trends and Affordability report released today by RBC Economics.

"Quebec started the year with a hit to affordability, showing deterioration that ranked second only to British Columbia for certain housing types," said Robert Hogue, senior economist, RBC. "The province's housing market has seen consistent price increases over the past year, which has raised the bar for homebuyers in the province. We anticipate that interest rate increases will raise that bar even higher in the period ahead."

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 (an increase represents deterioration in affordability). The measure for the standard two-storey home rose 1.3 percentage points from the previous quarter to 43.2 per cent and for the benchmark detached bungalow by 1.1 percentage points to 35.6 per cent, while the standard condominium moved just slightly to 28.9 per cent (an increase of 0.1 of a percentage point).

"The levels for all housing types in Quebec now stand above their long-term averages, which we believe correspond to moderately strained affordability in the province," said Hogue.

Property values in the Montreal-area market appreciated substantially for key housing categories in the first quarter of 2011. In fact, Montreal is the city with the strongest home price gains in the country relative to a year ago.

"Fast-rising prices in Montreal in the past year have been great for sellers, but have made things more difficult for those looking to buy. With affordability measures rising above the national average and a narrowing of the gap with Toronto, Montreal is losing its status as an affordable market," added Hogue.

In Montreal, RBC's affordability measures rose substantially for detached bungalows (up 2.0 percentage points) and two storey homes (up 2.8 percentage points), representing some of the largest increases in the country. Deterioration was more modest for standard condominiums – up by only 0.1 of a percentage point over the previous quarter.

The majority of Canadian markets experienced weakened affordability in the first quarter of 2011. Most notable was the sizeable deterioration in British Columbia. More specifically, Vancouver saw significant gains in property values, which drove the already elevated cost of homeownership even higher. Quebec's homebuyers also faced noticeable rises in ownership costs, while those in Atlantic Canada saw their affordability advantage somewhat diminish. The picture remained mixed in other areas of the country, with Ontario, Alberta and Saskatchewan experiencing ups and downs in ownership costs, depending on the housing type.

“Despite the latest erosion in affordability, provincial levels generally continue to stand near their long-term averages, suggesting that owning a home remains affordable or, at worst, slightly unaffordable across Canada – with Vancouver being a notable exception,” said Hogue.

RBC's housing affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 72.1 per cent (up 3.4 percentage points from the last quarter), Toronto 47.5 per cent (up 0.8 of a percentage point), Montreal 43.1 per cent (up 2.0 percentage points), Ottawa 39.0 per cent (up 0.4 of a percentage point), Calgary 35.9 per cent (up 0.9 of a percentage point) and Edmonton 31.5 per cent (up 0.5 of a percentage point).

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:** Strong home price increases reduced affordability in the province in the first quarter. The RBC measures for British Columbia rose between 0.8 of a percentage point and 1.8 percentage points, the most significant increases of all the provinces. The lack of affordability will continue to weigh on local demand and could potentially cause painful market disruptions in the period ahead.
 - Vancouver affordability continued to wane, as measures climbed between 1.0 percentage point and 3.4 percentage points, and moved closer to all-time highs.
- **Alberta:** Stable or slightly declining prices, contributed to substantial improvements in affordability in Alberta last year. While market conditions have become more balanced in recent months, there remains very little pricing momentum in the province. The RBC measures for all housing categories in Alberta stood below their long-term average in the first quarter.
 - There are tentative signs that the Calgary market is finally firming up. Area homebuyers are benefiting from attractive affordability, which remained the best among Canada's major cities.
- **Saskatchewan:** Following solid performance in the second half of last year, some softening in property values in the early months of 2011 led to a further decrease in the cost of owning a home in Saskatchewan. The RBC measures for bungalows and two-storey homes fell by 0.7 of a percentage point in the first quarter, representing a third consecutive quarterly improvement in affordability. Condominium apartments bucked this trend and saw their affordability modestly deteriorate in the face of higher prices.
- **Manitoba:** Housing affordability continues to be attractive in Manitoba, with little change registered in the first quarter. Measures rose by 0.1 of a percentage point for detached bungalows, declined by 0.2 of a percentage point for condominium apartments and stayed even for two-storey homes. Manitoba is still one of only two provincial markets (alongside Alberta) where affordability measures stand below long-term averages for all housing categories.
- **Ontario:** In the first quarter of 2011, home resales in Ontario increased at a sustained and yet subdued rate, while home prices rose modestly overall. Affordability stood very close to long-term averages, leaving homebuyer demand largely unchanged in the province. RBC measures went up for bungalows and condominiums (by 0.5 and 0.1 of a percentage point, respectively), but down for two-

storey homes (by 0.6 of a percentage point). Market activity in Ontario is likely to face some headwinds in coming months, given the latest changes in mortgage lending rules and the expected rise in interest rates.

- Somewhat tense market conditions in Toronto further fuelled appreciation in property values and led to an erosion in affordability, as RBC measures for detached bungalows and condominium apartments rose by 0.8 and 0.1 of a percentage point respectively.
 - Ottawa measures increased modestly for detached bungalows and two-storey homes, while they remained the same for condominium apartments. As most measures have moved above long-run averages, any further deterioration in affordability will likely act to restrain demand in the area.
- **Atlantic Canada:** In the first quarter, rebounding housing market activity has boosted property values in Atlantic Canada. Home resales in the region climbed solidly for the second consecutive period and further reversed some of the declines that occurred last year. The downside has been a modest fall in the region's affordability position. Affordability measures for Atlantic Canada increased between 0.6 and 0.9 of a percentage point in the latest period, although levels hovered near long-term averages and remained among the lowest in the country.

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.

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