



QUEBEC'S HOUSING AFFORDABILITY WEAKENS IN FIRST QUARTER: RBC ECONOMICS

Montreal area two-storey homes push the affordability envelope

TORONTO, May 29, 2012 — Quebec's housing market reversed much of the improvement made in the second half of last year, as affordability deteriorated in the first few months of 2012, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics.

"Hefty price gains drove the cost of owning a home in Quebec higher in the early months of this year," said Robert Hogue, senior economist, RBC. "The province saw the strongest increases in single family home prices in Canada, which caused a notable deterioration in affordability, particularly for detached bungalows and two-storey homes."

Despite this deterioration, RBC noted that housing affordability remains within close range of historical norms in the province and does not yet appear to be exerting undue pressure on homebuyers. Home resales fell slightly in the first quarter of this year, but remained approximately nine per cent above the 10-year average.

RBC's housing measures capture the province's proportion of pre-tax household income needed to service the costs of owning a home at market values. The measures for detached bungalows and two-storey homes climbed 1.4 and 1.7 percentage points, respectively. The measure for condominium apartments rose by a relatively more modest 0.6 percentage points.

RBC expects further challenges on the housing affordability front across Canada once the Bank of Canada begins raising interest rates in the fourth quarter of this year and assuming the European situation remains on the rails.

"Exceptionally low interest rates have been the key force in keeping affordability from hitting dangerous levels in Canada in recent years," said Craig Wright, senior vice-president and chief economist, RBC. "Affordability headwinds are likely to increase next year, as interest rates make their way toward more normal levels, although the gradual pace at which we anticipate the central bank to proceed will lessen any negative impact on the housing market."

Two-storey homes in Montreal area pushing affordability limits

Following rapid acceleration through the summer and fall of last year, home resale activity stabilized in the Montreal area. However, recent home prices gained clear ground, most notably in the two-storey home category, which contributed most to the deterioration in affordability in the first quarter of this year.

“For the most part, the cost of owning a home in the Montreal area at market prices remains manageable for homebuyers, taking only a slightly higher share of household income than the average since the mid-1980s,” observed Hogue.

RBC’s housing affordability measures rose across all housing types in the Montreal area, with two-storey homes leading the way (up 2.9 percentage points to 53.3 per cent), followed by standard condominiums (up 1.3 percentage points to 32.7) and detached bungalows (up 1.2 percentage points to 41.4).

RBC’s housing affordability measure for the benchmark detached bungalow in Canada’s largest cities is as follows: Vancouver 88.9 per cent (up 3.1 percentage points from the previous quarter), Toronto 53.4 per cent (up 1.2 percentage points), Ottawa 41.8 per cent (up 0.9 percentage points), Montreal 41.4 per cent (up 1.2 percentage points), Calgary 36.7 per cent (unchanged) and Edmonton 32.4 per cent (down 0.4 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) at market value. 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 based on going market values. 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.

[Where housing affordability stands in Canada](#)

- [British Columbia](#): poor affordability weighing on demand
After recording marginal improvements in the latter half of 2011, affordability in B.C. remained poor in the first quarter. Measures for the three housing types tracked by RBC moved in different directions in the latest period, primarily reflecting the pace of home price increases for each housing type. This poor affordability is likely weighing on buyer demand and a key factor behind the downward trend in home resales since last fall. RBC expects this pressure to persist going forward.
 - Following two consecutive quarters of declines, home prices rebounded across all housing types in the Vancouver area in the first quarter of 2012, making it even more difficult for a typical household to own a home in the area. RBC measures rose between 0.3 and 3.1 percentage points, raising doubts that significant affordability improvements will surface anytime soon.
- [Alberta](#): attractive affordability spurs housing market activity
Alberta’s housing affordability levels remained attractive in the first quarter of 2012, with RBC’s measures for the province standing among the lowest, if not the lowest, across the country. A strong provincial economy and relatively affordable

housing pushed home resale activity up 11.5 per cent year-over-year. As Alberta continues to lead the country in economic growth this year, RBC expects brisk housing activity to persevere.

- The long-awaited resurgence of Calgary's housing market appears to have launched in recent months. Home resales were up a notable 7.4 per cent in the first quarter, compared to the fourth quarter of 2011. Still, home prices have remained flat, for the most part, keeping housing affordability in check, with some of the best levels among Canada's largest cities. RBC expects the home resale market resurgence to continue through the remainder of the year.
- [Saskatchewan](#): affordability improves, resales surge to record high
Saskatchewan was the only province to show across-the-board improvement in housing affordability in the first quarter of 2012. Minor price increases – or even declines in the case of two-story homes – in the first three months of the year helped lower the cost of owning a home for all housing categories in the province. Measures fell between 0.2 and 2.0 percentage points, bringing affordability levels even closer to long-term averages and implying that any undue stress on homebuyers is dissipating. Looking ahead, rapid provincial economic growth will continue to support Saskatchewan's housing market.
- [Manitoba](#): affordability not an obstacle for homebuyers
In the first quarter, there was little change to Manitoba's affordability picture, with RBC measures moving only slightly. In fact, Manitoba's housing market is one of the more affordable in the country. The share of household income needed to cover the costs of owning a home at market value was generally in line with historical norms and continued to be a reasonably neutral financial burden for homebuyers. So far this year, resales have been quite volatile, registering a decline in the first quarter. RBC expects this will be a temporary pullback and that resales will continue to make gains this year.
- [Ontario](#): eroding affordability not deterring homebuyers
Ontario's housing affordability eroded slightly in the first quarter of 2012, amid rising home prices in some of the province's largest markets. The affordability picture in the province is somewhat tougher than it has been on average over the long-run, especially for single family homes, where property values appreciated the most in the past year. While this may cause some underlying stress in the market, it has yet to slow housing demand in the province. RBC expects the recent surge in housing starts will eventually help to address tight market supply.
 - Toronto's housing market is firing on all cylinders. Home resales increased to their highest level in two years and year-to-date monthly figures stood 14 per cent above the 10-year average in the area. Brisk demand has outpaced the supply of existing homes in the past year, with sellers retaining the upper hand. RBC expects that, if affordability continues to deteriorate, it will eventually serve as a deterrent for homebuyers.

- Ottawa area homebuyers were more hesitant to close deals, despite the greater availability of homes for sale. This reluctance might be related to weakened housing affordability late last year and in the first quarter of 2012, when measures rose between 0.4 and 0.9 percentage points, pushing levels further above long-term averages. This could signal that homebuyers are feeling stretched in the face of current market valuations. RBC notes, however, that Ottawa is not out of line relative to national standards and does not expect to see the kind of pressure that could destabilize the market in the period ahead.
- [Atlantic](#): affordability remains positive
Atlantic Canada's housing affordability levels remained in neutral for the most part in the first quarter, following back-to-back improvements in the latter half of last year. The share of household budget needed to cover the costs of owning a home at market values remained in line with long-term averages and compared favourably with other provinces. Homebuyers were quite engaged in the region, as home resales picked up further in the first quarter and activity in Halifax continued to be brisk. Still, RBC notes that home price appreciation in Atlantic Canada remained subdued for the most part.

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

For more information, please contact:

[Robert Hogue](#), Senior Economist, RBC Economics Research, 416 974-6192

[Elyse Lalonde](#), Manager, Corporate Communications, RBC Capital Markets, 416-842-5635