



QUEBEC HOMEBUYERS FACE MIXED BAG OF HOUSING AFFORDABILITY: RBC ECONOMICS

Montreal loses status as one of Canada's most affordable major cities

TORONTO, August 22, 2011 — Quebec's housing affordability has been mixed so far this year, according to the latest Housing Trends and Affordability report released today by RBC Economics.

"The cost of owning a two-storey home in Quebec is now starting to pinch household budgets," said Robert Hogue, senior economist, RBC. "Though other housing types remain largely affordable, our measure for two-storey homes in Quebec has moved above its long term average, which will likely restrain homebuyer activity going forward."

RBC's housing affordability measures for Quebec increased by varying degrees across all housing types in the second quarter of this year. RBC's measures capture the province's proportion of pre-tax household income needed to service the costs of owning a home at market values (an increase represents deterioration in affordability). The measure for the standard two-storey home grew 1.8 percentage points from the previous quarter to 44 per cent. The benchmark measure for detached bungalows increased by 1.0 percentage points to 35.1 per cent and the standard condominium rose by a mere 0.2 percentage points to 28 per cent.

In Montreal, rising home prices over the past year have made it more difficult to own a home. The measures for all housing types are currently above both their historical averages, as well as the national averages, causing Montreal to fall in the rankings of Canada's most affordable major cities.

"Homebuyers in Montreal seem unfazed by the drop in affordability, however, as home purchases increased for the second consecutive quarter. Still, enthusiasm may wane going forward, if home prices continue on an upward path," added Hogue.

RBC's affordability measures rose substantially in the Montreal area for two-storey homes (up 2.3 percentage points to 55 per cent) and increased by 1.4 percentage points to 42.6 per cent for detached bungalows. The measure for standard condominiums climbed modestly, by 0.1 percentage points to 32.8 per cent.

RBC's housing affordability measure for the benchmark 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 51.9 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 per cent (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 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.

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.
- **Alberta:** Housing affordability continues to be attractive in Alberta despite rises in measures – the lowest among provinces between 0.5 and 1.3 per cent. 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.
- **Manitoba:** Housing affordability has continued along in the 'neutral zone' in Manitoba this quarter. RBC measures experienced a modest deterioration in the latest quarter – ranging from 0.7 to 1.2 percentage points. This rise in homeownership costs may have contributed to cooling in spring home resale activity, though major flooding in the province likely caused some disruptions in certain areas. Before spring, Manitoba's existing home sales registered the best first quarter ever, led by strong gains in Winnipeg.
- **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 costs 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.
- **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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