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QUEBEC HOUSING AFFORDABILITY TRENDING SIDEWAYS: RBC ECONOMICS

Second quarter home resales approached record high

TORONTO, August 27, 2012 —Housing affordability levels in Quebec improved in two of three categories in the second quarter of 2012, while most regions of Canada saw the costs of owning a home at market prices increase as a share of household income, according to the latest Housing Trends and Affordability Report, released today by RBC Economics. At the same time, home resales were brisk in the province, reaching the third-highest second quarter total on record.

"We continue to see housing affordability measures trend sideways in Quebec, with the changes in the most recent period generally moving in the opposite direction in comparison to the previous quarter and in contrast to what occurred in most of the country," noted Robert Hogue, senior economist, RBC. "Housing affordability improved slightly for detached bungalows and condominium apartments, while it eroded somewhat for two-storey homes. Overall, these changes kept affordability levels close to historical averages in Quebec and have yet to be a significant strain on homebuyer demand."

RBC's housing affordability measures capture the province's proportion of pre-tax household income needed to service the costs of owning a home at market values. The measure for standard two-storey homes increased to 42.7 per cent, an increase of 0.2 percentage points over the previous quarter (an increase in the measure represents deterioration in affordability). The benchmark measures for detached bungalows and standard condominiums declined by 0.7 per cent and 0.5 per cent – to 34.0 and 27.3 per cent respectively – moving both these housing types close to their long-term average.

Montreal-area affordability improves

Second quarter 2012 housing affordability measures in Montreal reversed most of the notable deterioration in the first quarter, falling between 0.9 per cent and 1.0 per cent. RBC's affordability measures fell across all housing types in the Montreal area, with detached bungalows leading the way (down 1.0 per cent to 40.4 per cent), followed by standard two-storey homes and standard condominiums, both of which dipped down 0.9 percentage points (to 52.6 per cent and 31.6 per cent respectively).

"The improvement in affordability in Montreal defies the trend elsewhere in the country, although this may simply be a reflection of greater-than-usual volatility in the Montreal numbers recently," added Hogue. "Despite this improved affordability, the two-storey home category continues to look somewhat stretched in the city, exceeding both its long-run average of 42.6 per cent and the current national mark of 49.4 per cent."

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Where housing affordability stands in Canada

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities is as follows: Vancouver 91.0 per cent (up 2.2 percentage points from the previous quarter), Toronto 54.5 per cent (up 0.9 percentage points), Ottawa 41.9 per cent (unchanged), Montreal 40.4 per cent (down 1.0 percentage points), Calgary 36.7 per cent (unchanged) and Edmonton 32.4 per cent (down 0.1 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 apartment. 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 situation less severe outside Vancouver
Owning a home at market prices stretched the budgets of B.C.'s households even more in the second quarter of 2012. Affordability remains poor in the province, with RBC measures rising between 0.2 and 1.2 percentage points, although this largely reflects the extremely unaffordable conditions in the Vancouver-area market. The situation is much less severe elsewhere in the province.

- The Vancouver-area continues to be the least affordable market in Canada by a considerable margin. RBC's measures deteriorated further for all types of housing in the area, standing close to the worst levels on record.

Alberta: Lower utility costs help affordability
Markets in Alberta defied the national trend in the second quarter, experiencing widespread improvements in affordability, thanks to significant drops in the prices for electricity and natural gas. RBC measures eased between 0.3 and 0.6 percentage points, to levels well below their long-run averages.

- Calgary's housing market enjoyed stronger home resales and building activity, as well as moderately rising prices, and continues to register one of the most attractive affordability levels among Canada's largest cities.

Saskatchewan: Strong price increases dent affordability
Brisk housing activity over the past year has considerably tightened market conditions and applied upward pressure on home prices in the province, leading to some of the bigger deteriorations in affordability across Canada in the second quarter. The RBC measure for two-storey homes surged by 2.8 percentage points, while measures for condominium apartments and detached bungalows climbed 1.6 and 1.4 percentage points respectively.

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Manitoba: Homeownership costs remain manageable despite slip in affordability
Strong activity in Manitoba's housing market in the second quarter led to a notable erosion in affordability. Still, households face some of the lowest ownership costs as a share of their income in Canada. RBC measures rose between 0.4 and 1.9 percentage points in the province, to stand slightly above their historical average.

Ontario: Slowly deteriorating affordability trends live on
Ontario's homeownership costs rose in the most recent quarter, extending the gradually rising trend seen since 2009. RBC measures increased between 0.1 and 0.8 percentage points, modestly exceeding their long-term average.

- The Toronto area market saw modest deterioration in affordability for the second straight quarter. Homeownership costs consumed a larger share of household income in comparison to the historical average, revealing the presence of some greater-than-usual stress in the market, though mostly in single family home categories. Such stress will weigh on homebuyer demand in the period ahead. Meanwhile, market activity has cooled several degrees in recent months and the earlier tightness has eased.
- There was no change in homeownership costs as a share of household income in the Ottawa area market in the second quarter. RBC measures continue to stand above their long-run average and near their historic peaks, representing a greater-than-normal strain on Ottawa homebuyers. While second quarter existing home sales recorded the third-best ever pace in the area, the market's momentum has shifted down from the brisk pace recorded last year.

Atlantic Canada: Long-standing favourable affordability position maintained
Moderate affordability deterioration in the Atlantic region continued in the second quarter, with RBC measures rising between 0.3 and 0.7 percentage points, within close range of their long-run averages.

The full RBC Housing Trends and Affordability report is available online, as of 7 a.m. ET today, at rbc.com/economics/market/.

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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