



## QUEBEC'S HOUSING AFFORDABILITY IMPROVES IN THE THIRD QUARTER WITH MARKET ON MORE STABLE GROUND: RBC ECONOMICS

**TORONTO, November 29, 2010** — Quebec's housing market is moving toward steadier activity levels after experiencing wild swings in home resales over the past two years, according to the latest Housing Trends and Affordability report released today by RBC Economics Research.

"Resales surged to all-time highs at the start of this year following a dive to six-year lows at the end of 2008," said Robert Hogue, senior economist, RBC. "Following four consecutive quarters of increasing pressure, Quebec's housing affordability improved in the third quarter of 2010 which suggests that activity is being restored and is trading on a more sustainable path."

RBC's third quarter Housing Affordability Measures, which capture the province's proportion of pre-tax household income needed to service the costs of owning a home, fell between 1.4 and 1.8 percentage points across the housing types tracked by RBC (a decrease represents an improvement in affordability). Still, measures remain close to pre-downturn peaks and above the long-term average which will restrain growth in demand in the period ahead.

The RBC Measure for the benchmark detached bungalow in Quebec moved down to 35.0 per cent (a drop of 1.4 percentage points from the previous quarter), the standard condominium to 28.7 per cent (down 1.5 percentage points) and the standard two-storey home to 41.7 per cent (down 1.8 percentage points).

Unlike its peers across the country, Montreal's housing market has yet to show sustained signs of improvement as existing home sales in the area peaked at the end of last year, trending lower ever since. The RBC report notes that this partly reflects record high resale strength from December to February, which might be taking longer to unwind than in other major Canadian cities. Another factor was the notable increase in the cost of homeownership in Montreal in the past year.

"Montreal's market has experienced a year-over-year rise in housing affordability measures, second only to Vancouver, and this is undoubtedly weighing on homebuyers at this point. Fortunately, measures eased in the third quarter providing a spot of relief, though market tensions are likely to persist in the near term as current levels remain well above long-term averages," said Hogue.

All provinces saw improvements in affordability in the third quarter, particularly in British Columbia where elevated property values amplified the effect of the decline in mortgage rates on monthly mortgage charges. Ontario also experienced some notable drops in homeownership costs, pushing down the RBC Measures below their long-term average in the province for bungalows and condominiums. Alberta and Manitoba are the only two provinces where the RBC Measures stand below their long-term average in all housing categories, indicating little stress in these markets.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 68.8 per cent (down 5.4 percentage points from the last quarter), Toronto 47.2 per cent (down 3.0 percentage points), Montreal 41.7 per cent (down 1.3 percentage points), Ottawa 38.2 per cent (down 2.9 percentage points), Calgary 37.1 per cent (down 2.0 percentage points) and Edmonton 32.7 per cent (down 2.0 percentage points).

The RBC Housing Trends and 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 apartment. 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:** Lower home prices and declining mortgage rates brought the B.C. housing market some welcomed reprieve in the third quarter from the significant deterioration in affordability recorded since the middle of 2009. Amid much cooler resale activity through the spring and summer and greater availability of properties for sale, home prices either fell, particularly for bungalows, or remained stable in the case of condominium apartments. The RBC Housing Affordability Measures for B.C. dropped between 1.8 and 5.0 percentage points, representing the largest declines since the first quarter of 2009; however, all remained significantly above long-term averages. Poor affordability is likely to continue to weigh on housing demand in the province in the period ahead.

- **Alberta:** Despite recording substantial affordability improvements since early 2008, housing demand in Alberta is still a shadow of its former self from just a few years ago and there are few signs that it is picking up meaningfully. The RBC Measures eased between 0.8 and 1.8 percentage points, more than reversing modest rises in the second quarter. Homeownership is among the most affordable in Canada both in absolute terms and relative to historical averages. RBC notes such a high degree of affordability bodes well for a strengthening housing demand once the provincial job market sustains more substantial gains.
- **Saskatchewan:** Saskatchewan home resales rebounded since August and reversed most of their slide in the first half of this year; however, the earlier softening of activity had a lingering effect on home prices which fell across all housing types relative to the second quarter. RBC's Affordability Measures dropped between 1.8 and 2.2 percentage points, the most since early 2009 but still modestly above their long-term average, suggesting that current market conditions might be stretching Saskatchewan homebuyers' budgets to a degree.
- **Manitoba:** Manitoba's housing resales picked up smartly in September and October, swiftly turning the page on a particularly weak summer period, with provincial homebuyers taking advantage of improving affordability. RBC's Measures fell between 0.9 and 2.3 percentage points, reversing one-half to three-quarters of the increase that occurred since the spring of 2009. Manitoba is one of only two provinces, with Alberta, where the measures for all housing types are currently below their long-term averages, which will be a supportive factor for demand going forward.
- **Ontario:** After four consecutive quarterly increases, the cost of homeownership declined in Ontario in the third quarter thanks to lower mortgage rates and some softening in property values. RBC's Measures fell between 1.3 and 2.4 percentage points, fully reversing the increase in the second quarter. Existing home sales ended their precipitous slide confirming RBC's earlier expectation that the slowdown in activity through the spring and summer largely reflected various transitory factors – including the HST and changes in mortgage lending rules – that spurred demand at the start of this year. With the market now back in balance, the recent softness in home prices will likely prove to be a healthy recalibrating following a strong rally.

- **Atlantic Canada:** The East Coast housing market picked up some steam early this fall following a marked cooling in activity in the spring when resales fell back to the lows reached at the end of 2008. Modest price declines and a drop in mortgage rates contributed to lower third quarter homeownership costs with RBC's Measures moving down between 1.0 and 1.5 percentage points in the third quarter and returning roughly to the levels experienced in mid- to late-2009. Overall, housing affordability remains attractive in Atlantic Canada.

The full RBC Housing 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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