



## **SASKATCHEWAN'S HOUSING AFFORDABILITY IMPROVED AT THE END OF 2010: RBC ECONOMICS**

**TORONTO, February 24, 2011** — Housing affordability in Saskatchewan improved in the fourth quarter of 2010 for the second consecutive period despite higher home prices, according to the latest Housing Trends and Affordability report released today by RBC Economics.

“Saskatchewan’s market finished 2010 on an enviable note as the cost of homeownership fell even though home prices, for the most part, rose slightly in the fourth quarter,” said Robert Hogue, senior economist, RBC. “The price gains that occurred in the provincial market were too small to negate the beneficial effect of lower mortgage rates. Solid forward momentum in home resales through the second half of last year helped to re-establish a stronger balance between demand and supply, and set a firmer tone for prices.”

The RBC report notes that affordability in Saskatchewan improved for all housing categories in the fourth quarter of 2010.

The RBC Housing Affordability Measures capture the province’s proportion of pre-tax household income needed to service the cost of owning a home (a decline in measure means that owning a home is more affordable). The measure for the benchmark detached bungalow dropped by 1.1 percentage points to 37.9 per cent, the standard two-storey home fell 0.6 percentage points to 40.1 per cent, and the standard condominium eased by a solid 1.0 per cent to 25.4 per cent in the fourth quarter. Nonetheless, the levels for all measures remained modestly above historical averages in the province.

“Saskatchewan’s housing market will take its current affordability position in stride as a rebound in provincial economic growth and strong migration inflows will continue to housing demand this year,” added Hogue.

Elsewhere in the country, a majority of provinces saw improvements in affordability in the fourth quarter. Only the standard two-storey benchmark became less affordable in Ontario and Quebec, as did the standard condominium apartment in Quebec and the Atlantic region.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 68.7 per cent (down 0.4 percentage points from the last quarter), Toronto 46.8 per cent (down 0.5 percentage points), Montreal 41.3 per cent (down 0.4 percentage points), Ottawa 38.7 per cent (up 0.5 percentage points), Calgary 34.9 per cent (down 3.1 percentage points) and Edmonton 31.0 per cent (down 2.4 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. 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:** Buying a home in B.C. became slightly more affordable in the fourth quarter of 2010, due primarily to a small drop in mortgage rates. After experiencing some declines in the previous quarter, home prices rose modestly for most housing categories; condominium apartments bucked the trend, however, and depreciated slightly. Prices were supported by a tightening in market conditions with home resales picking up smartly following substantial cooling in the spring and summer that saw sellers lose their edge in setting property values. Demand and supply in the province are judged to be quite balanced at this point. RBC's Affordability Measures fell between 0.8 and 1.0 percentage points in the fourth quarter which came on the heels of much more substantial drops (1.7 to 4.8 percentage points) in the third quarter. Notwithstanding these declines, affordability remains poor and will weigh on housing demand going forward.
- **Alberta:** Alberta officially became the most affordable provincial market in the country in the fourth quarter, according to the RBC Measures which fell once again by 1.0 to 2.4 percentage points, extending their declines since late-2007. In addition to the lower mortgage rates, the further depreciation of home prices contributed to lowering homeownership costs. Property values were negatively affected by a substantial downswing in demand in the spring and early summer, which put buyers in the drivers' seat. The significant improvement in affordability is near the end of its line, however, as demand has shown more vigour in recent months – alongside a

provincial economy that is gaining more traction – and the market has become better balanced. RBC expects that this will stem price declines this year, thereby removing a potential offset to the negative effect of projected rise in interest rates on affordability.

- **Manitoba:** Manitoba's market enjoyed the best of both worlds in the fourth quarter of 2010 as home prices were higher but ownership costs were lower. Thanks to lower mortgage rates in the quarter and continued growth in household income, the negative effect of small gains in property values on affordability was more than offset. The RBC Measures eased between 0.1 and 0.6 percentage points in the fourth quarter, keeping Manitoba among the only two provincial markets in Canada (with Alberta) in which Affordability Measures stand below long-term averages for all housing categories. Sales of existing homes ramped up considerably in the fall, reaching near historical peaks by December. Housing demand is being boosted by the strongest net international immigration in the province since the mid 1950s and by improved job prospects – Manitoba boasts the lowest unemployment rate in Canada (as of the fourth quarter of 2010) and RBC expects this to continue in 2011.
- **Ontario:** Concerns last year that the housing market would falter have now largely dissipated as home resale activity picked up smartly in the fall and property values resumed their appreciation trend in the closing months of 2010. The slowdown in market activity in the spring and summer last year largely reflected various transitory factors – including the introduction of the HST and changes in mortgage lending rules – that brought demand forward to the start of the year. The silver lining of this slowdown, however, has been an improvement in affordability. The RBC Measures edged lower for the second consecutive time for most housing categories in the fourth quarter, down by 0.2 to 0.3 percentage points. The only exception was two-storey homes, which became marginally less affordable amid notable price gains. RBC expects affordability will play a neutral role for demand in Ontario with RBC Measures close to their long-run average.
- **Quebec:** Higher home prices in the fourth quarter of 2010 caused some deterioration in affordability following meaningful improvement in the previous period. Home resales strengthened in the latter part of 2010, contributing to tightened market conditions that gave sellers a stronger hand in negotiating prices, particularly for two-storey homes. Price gains and rising household income dominated the positive effects of lower mortgage rates on affordability in the fourth quarter for all housing types except detached bungalows (where a small improvement was registered). RBC Measures rose marginally by 0.1 to 0.2 percentage points for two-storey homes and condominium apartments, and fell by 0.6 percentage points for detached bungalows; however, the levels of all Measures

still modestly exceeded long-term averages in the province. RBC expects that modestly strained affordability in Quebec will further deteriorate in the period ahead when interest rates rise.

- **Atlantic Canada:** Home resale activity sputtered late in 2010 and reversed some of the gains achieved at the end of the summer and early fall. This has not disrupted property values in the fourth quarter as home prices generally appreciated; yet, housing affordability improved for most housing categories because declines in interest rates provided a dominant offset. Only condominium apartments saw a slim deterioration in affordability as the RBC Measures rose by 0.1 percentage point compared with declines of 0.5 percentage points for detached bungalows and two-storey homes. Affordability levels continue to be mostly attractive in Atlantic Canada from both historical and cross-country perspectives. RBC projects that is likely to remain so in the near-term despite our expectation of higher interest rates. Market conditions have recently swung in favour of buyers which will exert downward pressure on prices in coming months.

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](http://www.rbc.com/economics/market/pdf/house.pdf).

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