



Atlantic Canada's home resales dip but affordability levels remain attractive: RBC Economics

TORONTO, September 27, 2010 — Atlantic Canada's housing market was not immune to the recent slowdown in activity that has swept the country with home resales falling during spring and summer to the lows reached in the late-2008 to early-2009 downturn, according to the latest housing affordability report released today by RBC Economics.

“Cooling demand for housing across the region has loosened up market conditions a little from the very tight position they were in at the start of this year and limited the extent to which home prices have increased,” said Robert Hogue, senior economist, RBC. “This has ultimately kept housing affordability at attractive levels in Atlantic Canada, indicating little undue stress at this point, although some deterioration took place once again in the second quarter of 2010.”

The report notes that RBC's Housing Affordability Measures for Atlantic Canada moved up between 1.1 and 1.5 percentage points in the second quarter depending on the housing type and remain very close to long-term averages.

The RBC Housing Affordability Measures for Atlantic Canada capture the province's proportion of pre-tax household income needed to service the costs of owning a home (a rise in the measure means homes are less affordable). RBC's measure rose across all housing classes in the second quarter of 2010. The measure for the benchmark detached bungalow moved up to 32.4 per cent (an increase of 1.1 percentage points from the previous quarter), the standard townhouse rose to 28.1 per cent (up 1.1 percentage points), the standard two-storey home increased to 37.8 per cent (up 1.5 percentage points) and the standard condominium edged up to 26.9 per cent (up 1.4 percentage points).

Ontario and British Columbia saw the most significant deterioration in affordability in the second quarter; however, some improvements in specific housing types occurred in Alberta (condominiums) and Saskatchewan (townhouses). All other provinces showed modest erosion, with the exception of two-storey homes in Manitoba where the rise in the RBC measure was quite substantial.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 74.0 per cent (up 1.7 percentage points from the last quarter), Toronto 50.2 per cent (up 2.4 percentage points), Montreal 43.2 per cent (up 1.8 percentage points), Ottawa 41.2 per cent (up 3.6 percentage points), Calgary 39.2 per cent (up 0.9 percentage point) and Edmonton 34.7 (up 2.5 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. Alternative housing types are also presented including a standard two-storey home, a standard townhouse 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:** Homeownership in B.C. is testing household budgets with affordability deteriorating again in the second quarter despite downward pressure on home prices and market activity sinking since the start of this year. RBC's measures rose between 1.1 and 2.5 percentage points, representing some of the strongest increases among the provinces, and are near all-time highs for all housing categories. Very poor affordability is likely to restrain demand in the period ahead.
- **Alberta:** Affordability measures have improved in Alberta since early 2008 as a result of lacklustre housing market conditions. The second quarter saw a mixed picture with prices easing slightly for condominiums but rising in all other categories. RBC notes that affordability measures are at or below their long-term averages, implying little downside risk to the market and boding well for a strengthening in housing demand once the provincial job market shows more substantial gains.
- **Saskatchewan:** Rising mortgage rates during the quarter caused further deterioration in affordability for most housing types in the province. With the sole exception of townhouses edging lower, increases in affordability measures pushed levels further above long-term averages, indicating that some tensions may be building. RBC expects a strong rebound in the provincial economy this year and next which is likely to help ease such tensions.

- **Manitoba:** Sellers kept a firm hand on pricing by reducing the supply of homes available for sale in the province, resulting in home prices continuing to appreciate, particularly for two-storey homes, which is translating into further deterioration of housing affordability. Homebuyers are feeling more pressure with affordability measures standing close to long-term averages.
- **Ontario:** After setting new record highs this past winter, home resales in the province have since fallen precipitously due to a number of factors including the HST, changes in mortgage lending rules and the rush of first-time homebuyers to lock in low mortgage rates. Housing affordability in Ontario continues to reverse the considerable improvements achieved in late-2008 and early-2009 with measures increasing for a fourth consecutive time in the second quarter, representing some of the largest increases among the provinces.
- **Quebec:** Quebec's record-breaking housing market rally proved to be unsustainable in the second quarter with resale activity settling to a pace comparable to levels witnessed in 2006-2007, which were considered to be fairly vigorous at the time. Affordability was hampered by home prices trending upward with RBC affordability measures now at or very close to the pre-downturn peaks and exceeding their long-term averages. Further increases in homeownership costs could have a more visibly adverse effect on housing demand.

The full RBC Housing Affordability report is available online, as of 8 a.m. E.D.T. today at www.rbc.com/economics/market/pdf/house.pdf.

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