



Manitoba's housing affordability deteriorates as resale activity slips: RBC Economics

TORONTO, September 27, 2010 — Manitoba's housing affordability continued to erode in the second quarter of 2010 on the back of higher home prices and mortgage rates, according to the latest Housing Affordability report issued today by RBC Economics.

“While monthly resale activity slipped back to the low levels witnessed during the late-2008 and early-2009 period, sellers kept a firm hand on pricing by reducing the supply of homes available for sale in the province, resulting in escalating prices, particularly for two-storey homes,” said Robert Hogue, senior economist, RBC. “Nonetheless, homebuyers are feeling only moderate pressure, as affordability levels still stand close to long-term averages.”

According to the RBC report, Manitoba's second quarter housing affordability measures rose between 0.5 and 2.2 percentage points with two-storey homes representing the high end of the range.

The RBC Housing Affordability Measures for Manitoba 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 four housing classes in the second quarter of 2010. The measure for the benchmark detached bungalow moved up to 36.0 per cent (an increase of 0.8 of a percentage point from the previous quarter), the standard townhouse slightly rose to 24.7 per cent (up 1.1 percentage points), the standard two-storey home increased to 39.3 per cent (up 2.2 percentage points) and the standard condominium edged up to 21.6 per cent (up 0.5 of a percentage point).

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.

- **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.
- **Atlantic Canada:** The East Coast housing market was not immune to the significant downturn in activity that swept across the country since spring with housing resales falling back across the region to the lows reached during late-2008 and early-2009. Cooling demand loosened up market conditions, restraining home price increases and limiting the rise in affordability measures which remain very close to long-term averages. Overall, housing affordability in Atlantic Canada remains attractive and signals little undue stress at this point.

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.

For more information, please contact:

Robert Hogue, RBC Economics Research, 416-974-6192

Elyse Lalonde, Media Relations, RBC, 416-974-8810