



Quebec's historic housing rally comes to an end: RBC Economics

TORONTO, September 27, 2010 — Quebec's record-breaking housing market rally proved to be unsustainable in the second quarter as resale activity slowed considerably, partly reflecting an erosion of affordability over the past year, according to the latest housing report released today by RBC Economics Research.

“Home prices in Quebec have been rising since mid-2009 and although the second quarter increases were modest, they have contributed to increased homeownership costs which are above long-term averages and ever closer to the pre-downturn peaks,” said Robert Hogue, senior economist, RBC. “At this point, any further deterioration in affordability could have a more visibly adverse effect on housing demand in the province.”

The RBC Housing Affordability Measures for Quebec rose across all four housing classes in the second quarter of 2010 (the higher the measure, the more expensive it is to afford a home). The detached bungalow benchmark edged up to 36.5 per cent (up 1.3 percentage points from the previous quarter), the standard townhouse rose to 30.2 per cent (up 0.8 percentage points), the standard condo increased to 30.3 per cent (up 1.4 percentage points) and the standard two-storey home elevated to 43.7 per cent (up 1.6 percentage points).

While the cost of homeownership in Montreal remains far cheaper than Canada's priciest markets (Vancouver and Toronto), it has risen substantially in the past decade and has become increasingly more expensive compared to the national average. In the second quarter, RBC measures rose further above long-term averages for the fourth straight time, up moderately between 1.2 and 1.9 percentage points. In the case of two-storey homes, the measure is closing in on the all-time high.

“Montreal's decline in affordability has likely been a factor contributing to the sharp drop in housing resales since early spring and may very well continue to weigh on demand in the period ahead,” added Hogue.

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.
- **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