



Tension building in Saskatchewan's housing market despite softer resale activity: RBC Economics

TORONTO, September 27, 2010 — Housing affordability generally eroded further in Saskatchewan during the second quarter of this year even though resale activity continued to trend lower, according to the latest housing report released today by RBC Economics Research.

“Higher mortgage rates heightened tensions in Saskatchewan's housing market which caused affordability levels to deteriorate further from historical norms,” said Robert Hogue, senior economist, RBC. “However, we expect that the anticipated strong rebound in the provincial economy this year and next will help ease such tensions.”

The RBC report found that Saskatchewan's affordability measures, which capture the proportion of pre-tax household income needed to service the costs of owning a home, rose across most housing types in the second quarter of 2010 (a rise in the measure means a loss of affordability) with the exception of the measure for a standard townhouse which declined marginally.

The measure for the benchmark detached bungalow moved up to 40.8 per cent (a rise of 1.5 percentage points over the previous quarter), the standard condominium to 28.1 per cent (up 0.8 percentage points) and the standard two-storey home to 43.0 per cent (up 0.6 percentage points). The measure for the standard townhouse edged slightly lower to 31.5 per cent (down 0.1 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 report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the country, including Regina and Saskatoon. For these cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

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.
- **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.
- **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