



RESURGENT HOUSING MARKET LOWERS AFFORDABILITY IN QUEBEC, SAYS RBC ECONOMICS

TORONTO, November 25, 2009 – An invigorated housing market pushed Quebec homeownership costs upward for the first time in more than a year during the third quarter of 2009, according to the latest housing report released today by RBC Economics.

“Demand for housing has heated up in Quebec during the past several months, with historically low mortgage rates bringing many families into the market,” said Robert Hogue, senior economist at RBC. “This has driven property values higher in many parts of the province, but the downside has been an erosion of housing affordability, although levels still remain close to long-term averages.”

The RBC Affordability measure for Quebec, which captures the proportion of pre-tax household income needed to service the costs of owning a home, rose across all four housing classes in the third quarter of 2009. Affordability of the benchmark detached bungalow edged up to 33.5 per cent, the standard townhouse to 28.3 per cent, the standard condo to 27.8 per cent and the standard two-storey home to 40.4 per cent.

Some of the province’s largest price gains in recent months have been in areas such as Quebec City and other centres outside the Montreal region. In the Montreal area itself, the cost of homeownership inched higher, with RBC affordability measures for the region rising between 0.4 and 0.9 per cent in the quarter. While sales of existing homes in the Montreal area posted their best October on record, the RBC report indicates that the recent momentum is likely to face some resistance in the period ahead.

“Given that homeownership costs remain a little on the high side in Montreal, further rises in property values may gradually price some families out of the market resulting in slower-growing demand,” Hogue explained.

RBC's Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 66.8 per cent, Toronto 48.6 per cent, Ottawa 39.2 per cent, Montreal 37.5 per cent and Calgary 36.7 per cent.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the country, including Montreal and Quebec City. For these cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

The property benchmark for the Housing Affordability measure, which RBC has compiled since 1985, is based on the costs of owning a detached bungalow. Alternative housing types are also presented including a standard two-storey home, a standard townhouse and a standard condo. 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:** Following five consecutive declines, homeownership costs rose in B.C. during the third quarter. With housing demand growing faster than the supply, prices have been rising again. This development likely marks the end of the affordability upswing in B.C., with indications that homeownership costs will remain well above long-term averages.
- **Alberta:** The province experienced the first increase in homeownership costs since late-2007, in the third quarter. Housing market activity has picked up and stabilized with the modest rise in costs attributable to higher mortgage costs rather than a rise in property values. Attractive affordability levels and a return to economic growth should fuel housing demand in Alberta next year.
- **Saskatchewan:** With mortgage rates rising slightly and properties gaining value, owning a home became slightly less affordable in the province, following steady improvement for more than a year. However, homeownership costs remain historically high in Saskatchewan as a result of the sharp price appreciation that took place during the recent housing boom.

- **Manitoba:** Despite slight increases in the cost of homeownership – the smallest amongst all provinces in the third quarter – Manitoba’s housing market remained relatively affordable. Market conditions in the province appear tightly balanced, which should sustain solid resale activity in the near-term. Job growth and a faster economic expansion next year should maintain solid housing demand.
- **Ontario:** After a period of declining property values, the Ontario housing market appears to be bouncing back with home resale prices returning to and, in some cases, surpassing earlier peaks. While this reversal has brought confidence back into the market, third quarter affordability levels have deteriorated for the first time in over a year.
- **Atlantic Canada:** Housing on the east coast continued to be among the most affordable in the country, with Atlantic Canada experiencing moderate but steady gains in property values sustained by a gradual increase in the sale of existing homes. Increases in homeownership costs in the region, in the third quarter, were modest relative to other provinces, with levels mostly below national averages.

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

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