



ATTRACTIVE HOUSING AFFORDABILITY UNABLE TO CORRAL ALBERTANS: RBC ECONOMICS

Calgary home buyers remain on the sidelines

TORONTO, March 7, 2012 — Alberta home resale growth slowed noticeably in the final stretch of 2011 despite this province's enviable position as one of the most affordable housing markets in the country, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

"Housing in Alberta is the most affordable it has been since 2005 and the job market is on a roll, yet Alberta homebuyers were hesitant to sign on the dotted line in the fourth quarter of 2011," said Robert Hogue, senior economist, RBC. "We expect that homebuyers will become increasingly confident in the year ahead with attractive affordability levels and strong job prospects spurring their interest."

RBC's housing affordability measures capture the province's proportion of pre-tax household income that would be needed to service the costs of owning a home at market value. In the fourth quarter, measures for Alberta declined across all housing types (a decrease represents an improvement in affordability) to their lowest or second lowest points since 2005. The RBC measures for detached bungalows edged downward by 0.5 percentage points, to 32.1 per cent, while measures for standard two-storey homes declined by 0.6 percentage points, to 35.2 per cent, and dropped by 0.7 percentage points for standard condominium apartments, to 20.5 per cent.

Calgary housing market looking forward to turning a corner in 2012

After an encouraging start to 2011, Calgary home resales stayed mostly flat through the remainder of the year, ending with a marginal quarterly decline in the fourth quarter. Meanwhile, RBC affordability measures finished the year with declines in all housing categories, ranging between 0.2 and 0.7 percentage points, to levels well below long-run averages, for the most part.

"The lacklustre performance in the Calgary area housing market was surprising given the city's labour market strength and economic renaissance," added Hogue. "With home affordability at the best levels Calgary has seen in the last six years and a significant increase in net new jobs at the end of 2011, we expect these strong fundamentals will help spur the Calgary housing market in the year ahead."

In the fourth quarter of 2011, RBC affordability measures for standard detached bungalows declined by 0.7 percentage points, to 36.7 per cent; for standard two-storey homes by 0.2 percentage points, to 37.8 per cent; and the measure for standard

condominium apartments by 0.6 percentage points, to 22.5 per cent. In Edmonton, RBC affordability measure for standard bungalows declined by 0.3 percentage points, to 32.8; the measure for standard two-storey homes dropped by 0.9 percentage points, to 37.4 per cent; and the measure for standard condominium apartments moved downward by 0.1 percentage points, to 20.7 per cent.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities is as follows: Vancouver 86.0 per cent (down 4.6 percentage points from the previous quarter), Toronto 52.2 per cent (down 0.1 percentage points), Montreal 40.1 per cent (down 0.7 percentage points), Ottawa 40.9 per cent (down 0.1 percentage points), Calgary 36.7 per cent (down 0.7 percentage points) and Edmonton 32.8 per cent (down 0.3 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 in Canada, at market value. Alternative housing types are also presented, including a standard two-storey home and a standard condominium apartment. The higher the reading, the more difficult it is to afford a home at market values. For example, an affordability reading of 50 per cent means that homeownership costs, including mortgage payments, utilities and property taxes, would take up 50 per cent of a typical household's monthly pre-tax income.

[Where housing affordability stands in Canada](#)

[British Columbia](#) - affordability improving but remains poor

B.C.'s housing market improved for the second consecutive quarter in the final months of 2011 due to a further reversal of earlier substantial increases in home prices, particularly in the Vancouver area, as well as income gains arising from steady job creation. Despite the fact that B.C. registered the most significant reduction in homeownership costs in the country, the provincial housing market remains the least affordable in Canada.

Measures fell between 0.7 and 2.5 percentage points. RBC expects poor affordability to weigh on local housing demand in the coming year.

- Increased risks in the Vancouver-area housing market modestly subsided in the fourth quarter – a notable improvement over spring 2011, when it recorded the worst levels of affordability ever witnessed in the annals of Canadian real estate. Vancouver home prices have moderated since the middle of 2011, and affordability measures fell quite substantially in the fourth quarter for all housing types (between 2.0 and 4.6 percentage points). Still, RBC notes that owning a home at current prices would take up the lion's share of a typical household budget, which will continue to be a deterrent for local buyers.

[Saskatchewan](#) – resales surge to the highest level in almost four years

Housing affordability improved across most types of housing in Saskatchewan in the fourth quarter of 2011, as RBC measures moved close their long-run averages. The province experienced a surge in home resales, which reached the highest level in almost four years. Affordability is unlikely to weigh on homebuyers at this point, particularly as strong economic growth is expected to continue spurring Saskatchewan's housing demand this coming year.

[Manitoba](#) – bucking the improving trend in affordability

Manitoba was the only province to experience a slight deterioration in affordability in the fourth quarter. Strong housing demand tightened market conditions and gave way to price increases, particularly for two-storey homes and condominiums. Market activity was especially brisk in Winnipeg in the closing months of 2011, where existing home sales reached record levels. Although housing has become slightly less affordable, RBC's housing measures for Manitoba remain close to long-run averages, which suggests little in the way of undue pressure being applied on the province's homebuyers.

[Ontario](#) – sellers hold on to the upper hand

Like most of the other provinces, it became slightly easier to own a home in Ontario during the fourth quarter of 2011. RBC measures fell modestly between 0.2 and 0.3 percentage points, partly reversing the notable deterioration in the first half of last year. Still, the proportion of household income needed to cover homeownership costs remained slightly higher than average. This does not appear to be a strain on homebuyers in the province at this stage. Home resales advanced at a good clip in the fourth quarter and the tight availability of homes gave sellers the upper hand.

- Affordability in Toronto's housing market continues to be slightly strained, although some improvement was registered in the fourth quarter with RBC measures easing between 0.1 and 0.5 percentage points. Relatively high prices did not seem to unnerve homebuyers as resale activity continued to advance at a brisk pace in the closing months of last year. The Toronto-area market remained slightly more favourable for sellers, which will present a challenge with respect to any improvements in affordability in the near term.
- The Ottawa area affordability picture was mixed in the final quarter of 2011. Changes in the RBC affordability measures for the area ran the full gamut, keeping levels above long-term averages. Still, fourth quarter home resales powered ahead and prices were bid higher for all housing types. It remains to be seen whether this strong market momentum will be maintained in the period ahead.

[Quebec](#) – steady as she goes

Housing affordability in Quebec stood in the neutral zone, with RBC's fourth quarter measures for the province equaling, or coming very close to, their long-run averages. There was a broad-based improvement across all housing types; in particular, two-storey homes registered a substantial improvement that reversed the deterioration observed in the first half of 2011. With affordability firmly in neutral, balanced market conditions will keep the Quebec market reasonably stable in the coming months.

- The Montreal area continued to reverse the earlier deterioration in housing affordability and recorded some of the country's more substantial improvements for the second consecutive quarter, with RBC measures falling between 0.7 and 2.0 percentage points. Home resales in the area rose 6.9 per cent in the fourth quarter, despite weaker labour market conditions observed in the last half of 2011. These employment levels may yet exert pressure on housing demand and market conditions over the near term.

[Atlantic](#) - considerable pick up in resale activity

Echoing market conditions and developments at the end of 2010, Atlantic Canada closed 2011 on a positive note, with significant pick-up in resale activity and back-to-back affordability improvements. Resale strength in the fourth quarter was particularly remarkable in Halifax, which may be a reflection of a burst in optimism following the announcement of the \$25 billion federal government frigate order. St. John's also saw a surge in housing activity. While most markets within the region remain balanced, Halifax is closing in on becoming a sellers' market, and Saint John remains a buyers' market.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today, at rbc.com/economics/market/.

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