



QUEBEC HOUSING AFFORDABILITY REMAINS FIRMLY IN NEUTRAL: RBC ECONOMICS

Montreal area showed some of the most significant improvements in Canada

TORONTO, March 7, 2012 — Quebec's housing market continued on a stable affordability path in the fourth quarter of 2011, according to the latest [Housing Trends and Affordability Report](#) released today by RBC Economics. Back-to-back improvements across all housing types in the province have kept signs of strain in homeownership costs out of the limelight.

“Quebec homebuyers saw further improvements across all housing types, particularly two-storey homes, which helped to reverse the erosion in affordability that took place in the first half of 2011,” said Robert Hogue, senior economist, RBC. “With affordability levels holding close to their historical levels, resale activity rebounding strongly in the final months of 2011 and market conditions striking a balance between demand and supply, we expect Quebec's housing market to be reasonably stable in 2012 relative to 2011.”

RBC's housing measures capture the province's proportion of pre-tax household income needed to service the costs of owning a home at market values. The measure for standard two-storey homes decreased a considerable 2.6 percentage points from the previous quarter to 40.5 per cent (a decrease represents an improvement in affordability). The benchmark measure for detached bungalows and standard condominiums decreased more modestly, by 0.2 and 0.5 percentage points respectively, both matching their long-term average.

Notable improvements in Montreal-area affordability

Housing affordability in Montreal posted some of the country's most significant improvements for the second consecutive quarter. RBC's affordability measures fell across all housing types in the Montreal area, with two-storey homes leading the way (down 2 percentage points to 50.2 per cent), followed by standard condominiums (falling 1.3 percentage points to 31.3 per cent) and finally, detached bungalows (dropping 0.7 per cent to 40.1 per cent). Nevertheless, home resales in Montreal dropped 2.4 per cent in the closing months of the year.

“The Montreal housing market maintained strong momentum with home resales rising at the tail end of 2011,” added Hogue. “This occurred despite a slump in the local labour market during the back half of last year. Such a slump may still weigh on housing demand and market conditions in the near term, and we expect that pressure will remain for a further reversal of the earlier deterioration in affordability in the area.”

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).

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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.

[Alberta](#) – affordable, yet buyers remain hesitant

Alberta's housing prices became more affordable in the final quarter of 2011, which helped to pull measures down to their lowest or second lowest points since 2005 (they fell between 0.5 and 0.7 percentage points). In spite of such attractive affordability, the pace of home resales noticeably slowed. Going forward, a strong labour market and affordable housing should shake off any hesitation that Alberta homebuyers may have.

- After showing an encouraging start in 2011, home resales in the Calgary area stayed mostly flat for the rest of the year and ended with a marginal decline in the fourth quarter. This lacklustre performance was surprising given the strength in Calgary's labour market (31,000 net new jobs were created in 2011) and the attractive affordability levels (measures fell for all housing categories between 0.2 and 0.7 percentage points). RBC expects strong market fundamentals will help the Calgary market turn a corner in the period ahead.

[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.

[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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