



## HOUSING TRENDS AND AFFORDABILITY

November 2011

**Affordability improved modestly across Canada in the third quarter of 2011**

While the European sovereign-debt crisis in the past several months re-ignited tensions in global financial markets and heightened uncertainty about the world economy, the effect on Canada's housing market so far might not have been all negative. In fact, it appears that developments related to the crisis likely provided some benefits in the form of lower interest rates. For instance, fixed mortgage rates (on a five-year, posted basis) eased to 5.3% in the third quarter of 2011 from an average of 5.6% in the second quarter of this year. This ran counter to expectations of generally rising interest rates just prior to this summer's latest bout of global anxiety.

**Lower mortgage rates lending a helping hand**

Lower mortgage rates, in turn, contributed to lessening the costs of owning a home in Canada. Following two consecutive quarters of deterioration, housing affordability improved broadly, albeit modestly, in Canada in the third quarter. At the national level, the RBC Housing Affordability Measures fell by 0.2 percentage points to 29.0% for condominium apartments, by 0.6 percentage points to 48.8% for two-storey homes and by 0.7 percentage points to 42.7% for detached bungalows (a decline represents an improvement in affordability).

**In the third quarter, Vancouver was much less of factor at the national level**

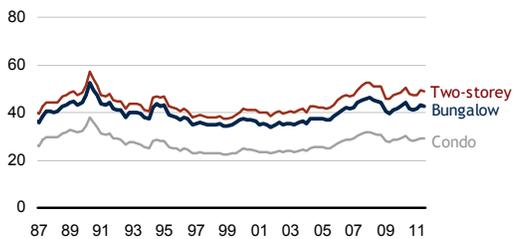
In the third quarter, events in the Vancouver market did not have a disproportionate effect on the national totals, as the homeownership cost declines were both widespread and of roughly similar magnitudes across the provinces and major cities. The affordability deterioration in the first and second quarters reflected in large part significant increases in homeownership costs in Metro Vancouver. In the third quarter, the vast majority of provinces and cities experienced modest declines in the RBC measures (typically less than 1 percentage point), with condominium apartments showing the smallest variations. There were, nonetheless, some standouts: most notably, two-storey homes in Montreal and Manitoba, and detached bungalows in Vancouver and Montreal, where the RBC measures dropped more meaningfully.

**Affordability levels still posing little threat to housing demand overall**

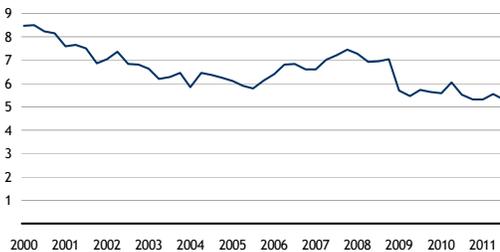
All in all, housing affordability levels still look reasonable in most parts of the country outside of British Columbia and pose a minimal threat to housing demand. The share of household budget needed to cover the costs of owning a home at market values generally remains close to historical norm. We thus

**RBC Housing Affordability Measures - Canada**

Ownership costs as % of household income

**5-year conventional mortgage rate in Canada**

%, quarterly average of posted rate



Source: Bank of Canada, RBC Economics Research

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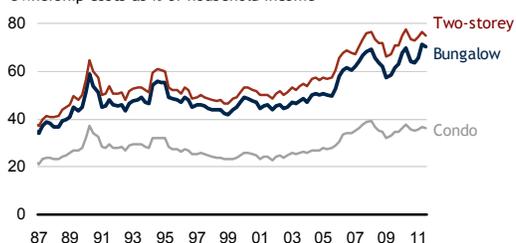
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## RBC Housing Affordability Measures

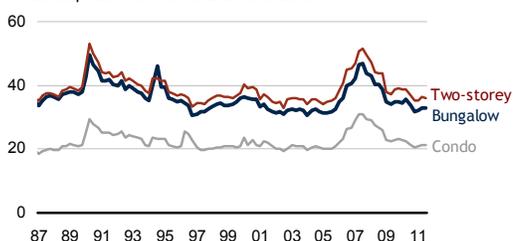
### British Columbia

Ownership costs as % of household income



### Alberta

Ownership costs as % of household income



Source: Statistics Canada, Royal LePage, RBC Economics Research

continue to believe that the majority of local markets are, at worst, just slightly ‘unaffordable’. Of course, the Vancouver-area market continues to be a major exception, with sky-high property values in upscale neighbourhoods making it both extremely unaffordable and the most at risk of a downward correction. Other markets where some signs of unaffordability have emerged earlier this year include Toronto, Ottawa, and Montreal (although they mostly confined to the two-storey home category).

### Stable affordability trends going forward

With increased global economic uncertainty likely to persist in the short term, we now expect that interest rates will remain exceptionally low in Canada until the middle of 2012 and then rise only gradually thereafter. We also anticipate that the pace of home price increases will moderate further next year amid flat housing demand. We believe that these factors will set the stage for a period of relative stability in affordability trends in Canada in the coming year.

## Provincial overviews

### British Columbia — Slightly less unaffordable

Following substantial deterioration in the previous two quarters, it became slightly less unaffordable to own a home in British Columbia in the third quarter of this year. The combination of a small mortgage rate decline and softer prices for some housing types (two-storey homes and condominium apartments) pressured the RBC affordability measures down by 0.3 to 1.2 percentage points in the quarter. While a welcome development for would be homebuyers in the province, this changes very little to the poor affordability picture overall in British Columbia—although this is heavily skewed by sky-high property valuations in the Vancouver area. (Elsewhere in the province, owning a home takes a much lesser toll on household’s budget.) The RBC measures remain very close to their worst points on record (which were reached in the second quarter of this year in most cases). Poor affordability will continue to weigh on local housing demand.

### Alberta — Still the most affordable market in Canada

The Alberta housing market is showing signs that it is finally on a strengthening path, benefiting from the provincial economy shifting to a higher gear this year (in particular, the impressive employment gains that have been recorded so far this year). In the third quarter, home resales and, especially, housing starts picked up steam and reached their highest levels in more than a year. Renewed demand for housing also likely benefitted from attractive affordability levels in the province. The RBC affordability measures for Alberta remained the lowest among the provinces, mostly unchanged in the third quarter (the measure for two-storey homes, the only housing type that changed, in fact, improved by -0.4 percentage points). We expect positive underlying fundamentals to keep resale activity on a strengthening path in the period ahead.

### Saskatchewan — Homebuyers comfortable with affordability levels

Although RBC's affordability measures for Saskatchewan continue to be above their long-term averages, widespread improvement was recorded in the third quarter. The measures fell for all housing types—between 0.8 and 0.9 percentage points—and reversed part of the increases (in some cases, substantially) from the previous quarter. Saskatchewan homebuyers seem fairly comfortable with current affordability levels. Indeed, they were quite active in the third quarter, with resales rising nearly 6% from the second quarter to their highest levels in two years. Hefty gains were seen in Saskatoon and, to a lesser extent, Regina. Home prices in the province maintained their steady ascent, showing modest gains for most housing types. The Saskatchewan housing market will continue to be well supported by strong economic growth in the coming year.

### Manitoba — Lower prices help affordability

The Manitoba market showed some of the more significant improvement in affordability among the provinces in the third quarter. The RBC measure for two-storey homes fell 1.5 percentage points, while the measures for detached bungalows declined by 1.2 percentage points and for condominium apartments by 0.8 percentage points. Home prices in the province reversed some of the hefty gains in the second quarter (when new record highs were set), and this greatly contributed to lower the costs of owning a home in the third quarter. Affordability levels in Manitoba are at or slightly below long-run averages, which indicate little in the way of overdue pressure being applied on the province's homebuyers. Homebuyers took advantage of greater affordability in the third quarter and boosted home resales by 5.3% from the second quarter.

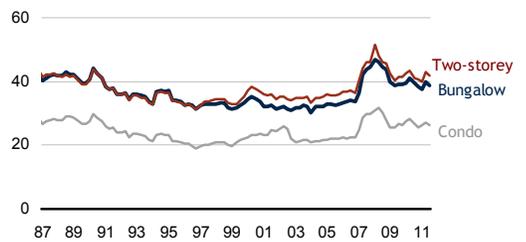
### Ontario — Homeownership costs hold steady

Ontario households needed to allocate the same proportion of their income to own a home at market prices in the third quarter as they did in the second quarter. The RBC affordability measures for Ontario were unchanged in the latest period (condominium apartments being the only category moving by a marginal -0.1 percentage points). Housing affordability, therefore, generally remained at just a slightly worse position than the historical average in the province, with the two-storey homes segment perhaps showing some mild stress. This mostly neutral stance in affordability posed no obstacle to resale market activity, which advanced by 3.8% in the third quarter. The overall Ontario market is balanced, and this sustains steady yet moderate price increases. The number of homes for sale also is on the rise, and this will act to slow the pace of property appreciation even more in the period ahead.

## RBC Housing Affordability Measures

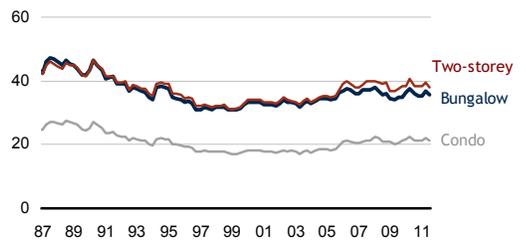
### Saskatchewan

Ownership costs as % of household income



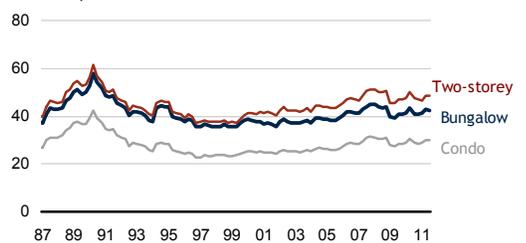
### Manitoba

Ownership costs as % of household income



### Ontario

Ownership costs as % of household income

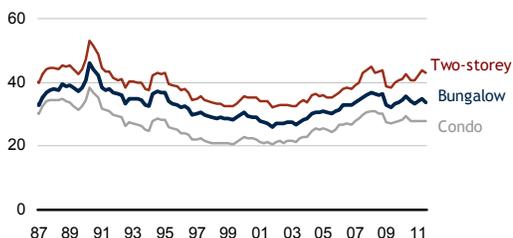


Source: Statistics Canada, Royal LePage, RBC Economics Research

## RBC Housing Affordability Measures

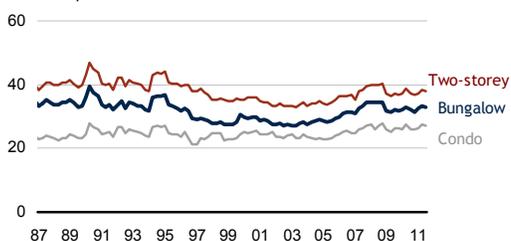
### Quebec

Ownership costs as % of household income



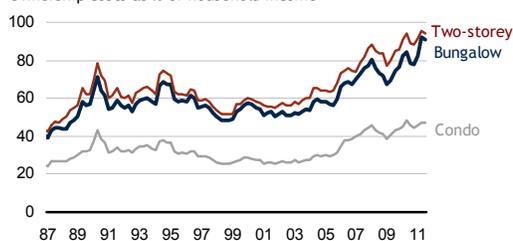
### Atlantic Provinces

Ownership costs as % of household income



### Vancouver

Ownership costs as % of household income



Source: Statistics Canada, Royal LePage, RBC Economics Research

### Quebec — Back to the norm

Following back-to-back deteriorations, housing affordability improved for all housing categories in Quebec in the third quarter. The RBC affordability measures for the province declined between 0.1 percentage points (condominium apartments) and 1.4 percentage points (detached bungalows), thereby returning levels to long-run averages for the most part. Only two-storey homes appear a little worse than has been the case on average since the middle of the 1980s, yet this is unlikely to cause any harmful tensions at this point, as it is still far from extreme. The effect of this mostly benign affordability picture on housing demand was muted in the third quarter, however. Home resales barely increased, edging up just 0.6% from the second quarter. The stalling of Quebec's job market since early summer likely contributed to the slowing activity.

### Atlantic — All in moderation...as usual

Faithful to its reputation, Atlantic Canada's housing market continues to show everything in moderation. The share of household income needed to pay the costs of owning a home is still among the lower in Canada and declined only modestly in the third quarter—the RBC measures eased between 0.4 and 0.6 percentage points. Home resales increased marginally in the third quarter, and prices rose minimally at best. Meanwhile, the market remains entrenched in balanced territory overall in the region, with Saint John perhaps qualifying as a buyers' market. In fact, many markets in New Brunswick have displayed signs of cooling in the last two quarters amid marked deterioration in the province's labour market. With slow economic growth projected in Atlantic Canada next year, moderate housing trends are likely to persist in the region.

## Major city markets

### Vancouver — Homeownership still a giant stretch

Owning a home at current market prices in the Vancouver area remains a giant stretch for the typical Vancouver household, but it became a little easier in the third quarter. The RBC affordability measures for detached bungalows and two-storey homes in the area fell 1.5 and 0.8 percentage points, respectively, in the latest period. The measure for condominium apartments, on the other hand, rose further in the third quarter. With more than 94% of a household income needed to cover the ownership costs of a two-storey home or nearly 91% for a detached bungalow, the ownership bar is still incredibly high in the Vancouver area. And such extreme unaffordability appears to be driving local buyers away. Home resales posted two consecutive quarterly declines for a cumulative drop of more than 16% since winter. Loosening market conditions have begun to ease upward pressure on property values, as the rate of price increases has slowed recently.

### Calgary — Regaining momentum

The good news is that the Calgary market regained some momentum in the third quarter after somewhat of a lull in the second quarter. Both home resales and prices picked up again for most housing categories in the area. The Calgary market has been invigorated by strengthening local employment where more than 25,000 net new jobs (a 3.7% increase) have been created so far this year. The flipside of renewed momentum, however, has been an erosion of affordability. The RBC affordability measures deteriorated for most housing types in the third quarter, rising between 0.2 and 0.5 percentage points. Two-storey homes were an exception, as the measure edged lower by 0.3 percentage points. Despite the modest deterioration that took place in the latest period, affordability remains quite attractive in Calgary, ranking at some of the better levels among Canada's largest cities.

### Toronto — Pushing the envelop

Despite pushing the envelope on the housing affordability front, the Toronto-area market continued its march forward in the third quarter. Motivated homebuyers drove sales of existing homes higher still, which has kept market conditions quite tight even as the number of units for sale rose. With the sales-to-new listings ratio hovering around the 0.60 mark and the number of days on the market averaging less than one month, the Toronto area remains a sellers' market. Going forward, however, local housing demand might be facing some headwinds from strained affordability. While still nowhere near the dangerous levels that prevailed in 1990, the RBC affordability measures clearly stand above the long-run averages for the area. In the third quarter, the measures were little changed—rising marginally by 0.1 percentage points for detached bungalows, declining by 0.3 percentage points for two-storey homes, and staying flat for condominium apartments.

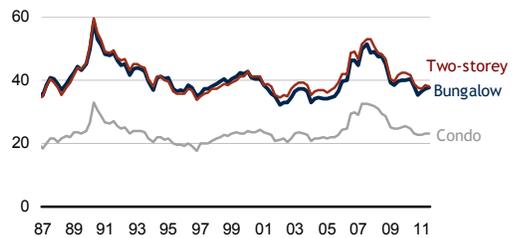
### Ottawa — Best of both worlds in the third quarter

The earlier cooling in activity in the Ottawa-area market was almost entirely reversed in the third quarter. Home resales rebounded smartly by 8.0% from the second quarter and recovered most of the 4.5% and 4.1% declines in the two preceding periods. The strong third quarter rebound was accompanied by an even larger increase (9.5%) in the number of homes offered for sale, however, and this worked to ease market conditions a little. The pace of home prices in the Ottawa area, which had been running high since the fall of 2010, consequently decelerated substantially in the third quarter—to a standstill in the case of detached bungalows. Such a weaker rate of property appreciation, in turn, contributed to some improvement in housing affordability. The RBC affordability measures for the area fell between 0.2 and 0.6 percentage points in the latest period. Nonetheless, local affordability still look mildly strained from a historical perspective.

## RBC Housing Affordability Measures

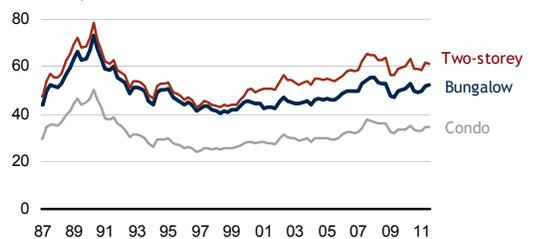
### Calgary

Ownership costs as % of household income



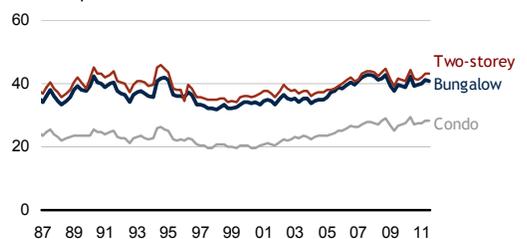
### Toronto

Ownership costs as % of household income



### Ottawa

Ownership costs as % of household income

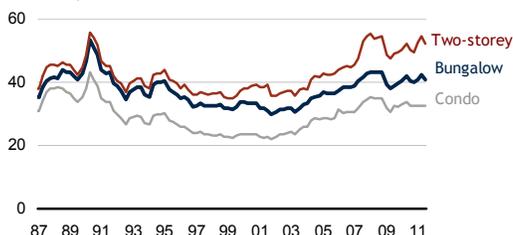


Source: Statistics Canada, Royal LePage, RBC Economics Research

## RBC Housing Affordability Measures

### Montreal

Ownership costs as % of household income



Source: Statistics Canada, Royal LePage, RBC Economics Research

### Montreal — Affordability improved but still causing a little stress

The Montreal-area market saw some of the bigger affordability improvement in the country in the third quarter but still faces some degree of stress. The costs of owning a two-storey home, in particular, dropped notably. The RBC affordability measure for this housing category fell 2.3 percentage points, by far largest decline registered in Canada in the latest period and the biggest in the area since early 2009. The measure for detached bungalows also eased but by a lesser, although still substantial, 1.3 percentage points. Such improvement, however, only reversed part of the significant affordability deterioration in those two housing categories that occurred earlier this year. With the condominium segment largely unchanged in the third quarter (rising by a marginal 0.1 percentage points), affordability levels in the Montreal area continue to be somewhat worse than they have been on average historically.

## How the RBC Housing Affordability Measures work

The RBC Housing Affordability Measures show the proportion of median pre-tax household income that would be required to service the cost of mortgage payments (principal and interest), property taxes and utilities on a detached bungalow, a standard two-storey home and a standard condo (excluding maintenance fees) at the going market prices.

The qualifier 'standard' is meant to distinguish between an average dwelling and an 'executive' or 'luxury' version. In terms of square footage, a standard condo has an inside floor area of 900 square feet, a bungalow 1,200 square feet and a standard two-storey 1,500 square feet.

The measures are based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate and are estimated on a quarterly basis for each province and for Montreal, Toronto, Ottawa, Calgary, Edmonton and Vancouver-metropolitan areas. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lie an equal number of observations.)

The RBC Housing Affordability Measure is based on gross household income estimates and, therefore, does not show the effect of various provincial property-tax credits, which could alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a house. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities and property taxes take up 50% of a typical household's pre-tax income.

Qualifying income is the minimum annual income used by lenders to measure the ability of a borrower to make mortgage payments. Typically, no more than 32% of a borrower's gross annual income should go to 'mortgage expenses' — principal, interest, property taxes and heating costs (plus maintenance fees for condos).

## Summary tables

### Detached bungalow

Region	Average Price			Qualifying Income (\$) Q3 2011	RBC Housing Affordability Measure			
	Q3 2011 (\$)	Q/Q % ch.	Y/Y % ch.		Q3 2011 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	349,000	0.4	7.2	76,200	42.7	-0.7	1.1	39.4
British Columbia	622,600	0.1	14.5	120,300	70.2	-0.8	6.1	49.5
Alberta	343,200	1.1	0.7	75,900	32.8	0.0	-0.8	36.2
Saskatchewan	326,800	1.1	4.5	72,100	38.9	-0.8	-0.5	36.8
Manitoba	263,700	-1.6	5.1	62,200	35.6	-1.2	-0.2	37.0
Ontario	364,500	1.6	7.5	82,200	42.6	0.0	1.6	40.8
Quebec	224,600	-2.4	1.5	51,700	33.5	-1.4	-0.5	33.1
Atlantic	209,800	0.0	6.6	51,700	32.9	-0.5	0.9	32.0
Toronto	507,900	2.2	8.9	107,100	52.1	0.1	2.4	48.9
Montreal	281,300	-1.7	4.7	62,600	40.9	-1.3	0.5	37.3
Vancouver	819,700	-0.3	21.9	154,500	90.6	-1.5	12.5	58.7
Ottawa	371,900	0.0	9.1	86,100	40.8	-0.6	1.7	37.1
Calgary	423,600	2.9	2.6	88,000	37.6	0.5	-0.4	40.2
Edmonton	322,900	-0.8	0.0	73,200	33.2	-0.6	-1.3	34.2

### Standard two-storey

Region	Average Price			Qualifying Income (\$) Q3 2011	RBC Housing Affordability Measure			
	Q3 2011 (\$)	Q/Q % ch.	Y/Y % ch.		Q3 2011 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	396,100	0.8	6.8	87,000	48.8	-0.6	1.1	43.8
British Columbia	661,100	-0.4	6.0	128,600	75.1	-1.2	1.8	54.8
Alberta	368,700	-0.4	0.7	83,400	36.0	-0.4	-0.8	38.9
Saskatchewan	344,800	1.1	9.1	77,800	42.0	-0.9	0.8	38.3
Manitoba	282,000	-2.4	4.5	66,300	37.9	-1.5	-0.4	38.0
Ontario	415,700	1.8	6.8	94,200	48.8	0.0	1.6	44.5
Quebec	294,600	1.2	11.8	66,500	43.1	-0.6	2.3	39.2
Atlantic	234,300	0.0	5.3	59,500	37.9	-0.6	0.8	38.4
Toronto	593,800	1.2	7.1	126,000	61.3	-0.3	2.0	54.4
Montreal	365,300	-3.2	8.6	80,000	52.2	-2.3	2.0	42.3
Vancouver	847,400	0.5	10.6	160,900	94.4	-0.8	5.7	64.0
Ottawa	379,800	0.7	8.4	90,600	42.9	-0.4	1.5	39.6
Calgary	414,700	-0.1	1.0	89,300	38.2	-0.3	-0.7	40.8
Edmonton	372,900	-0.7	2.9	84,700	38.5	-0.6	-0.6	37.5

### Standard condominium

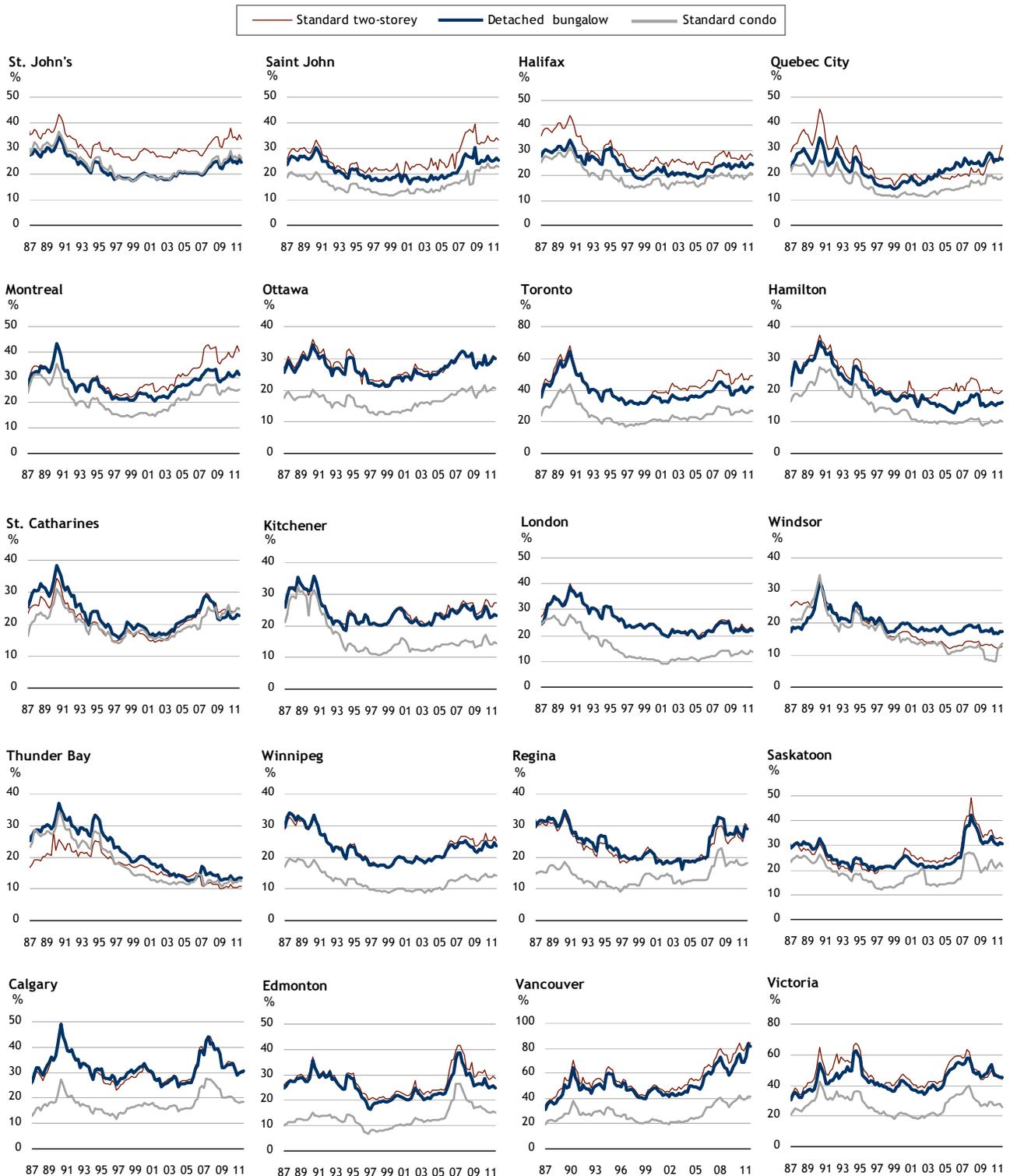
Region	Average Price			Qualifying Income (\$) Q3 2011	RBC Housing Affordability Measure			
	Q3 2011 (\$)	Q/Q % ch.	Y/Y % ch.		Q3 2011 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	232,800	1.2	5.5	51,600	29.0	-0.2	0.4	27.1
British Columbia	313,200	0.3	5.5	62,300	36.4	-0.3	0.7	28.2
Alberta	219,500	1.5	3.2	49,400	21.3	0.0	-0.1	22.4
Saskatchewan	218,500	0.2	4.2	48,800	26.3	-0.8	-0.4	24.6
Manitoba	157,700	-0.3	6.4	37,500	21.4	-0.5	0.0	21.2
Ontario	252,000	1.3	6.6	57,500	29.8	-0.1	0.9	28.1
Quebec	190,200	2.3	3.3	42,800	27.7	-0.1	-0.1	27.1
Atlantic	176,900	0.4	9.2	42,400	27.0	-0.4	1.2	24.8
Toronto	326,700	1.7	5.4	70,400	34.3	0.0	0.8	31.6
Montreal	227,200	3.1	2.9	50,000	32.6	0.1	-0.1	29.5
Vancouver	419,100	2.0	7.4	80,500	47.2	0.2	1.6	32.5
Ottawa	257,000	0.6	7.9	59,400	28.2	-0.2	1.0	23.9
Calgary	254,500	2.2	3.2	54,300	23.2	0.2	-0.1	23.3
Edmonton	199,500	-0.6	4.5	46,000	20.9	-0.3	0.0	18.6

\* Population weighted average

Source: Royal LePage, Statistics Canada, RBC Economics Research

## Mortgage carrying costs by city

Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at going market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraint in the smaller CMAs. This measure is based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate and is estimated on a quarterly basis. The higher the measure, the more difficult it is to afford a house.



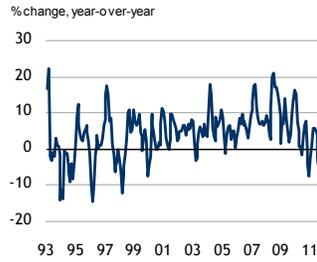
Source: Statistics Canada, Royal LePage, RBC Economics Research

# Home prices

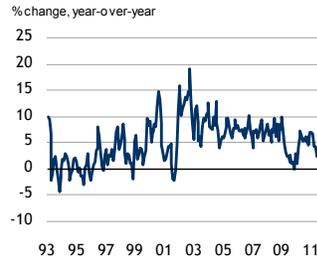
**St. John's**



**Saint John**



**Halifax**



**Quebec City**



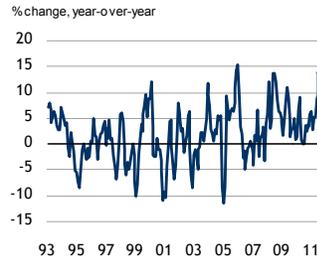
**Montreal**



**Ottawa**



**Thunder Bay**



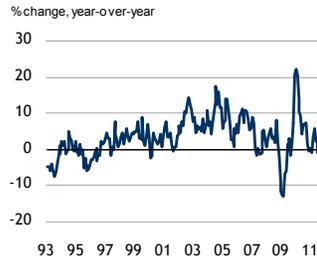
**Toronto**



**Hamilton**



**St. Catharines**



**Kitchener**



**London**



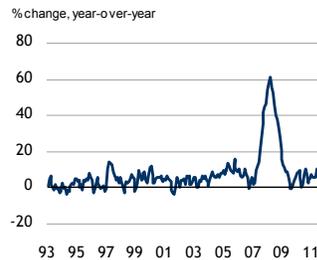
**Windsor**



**Winnipeg**



**Regina**



**Saskatoon**



**Calgary**



**Edmonton**



**Vancouver**



**Victoria**

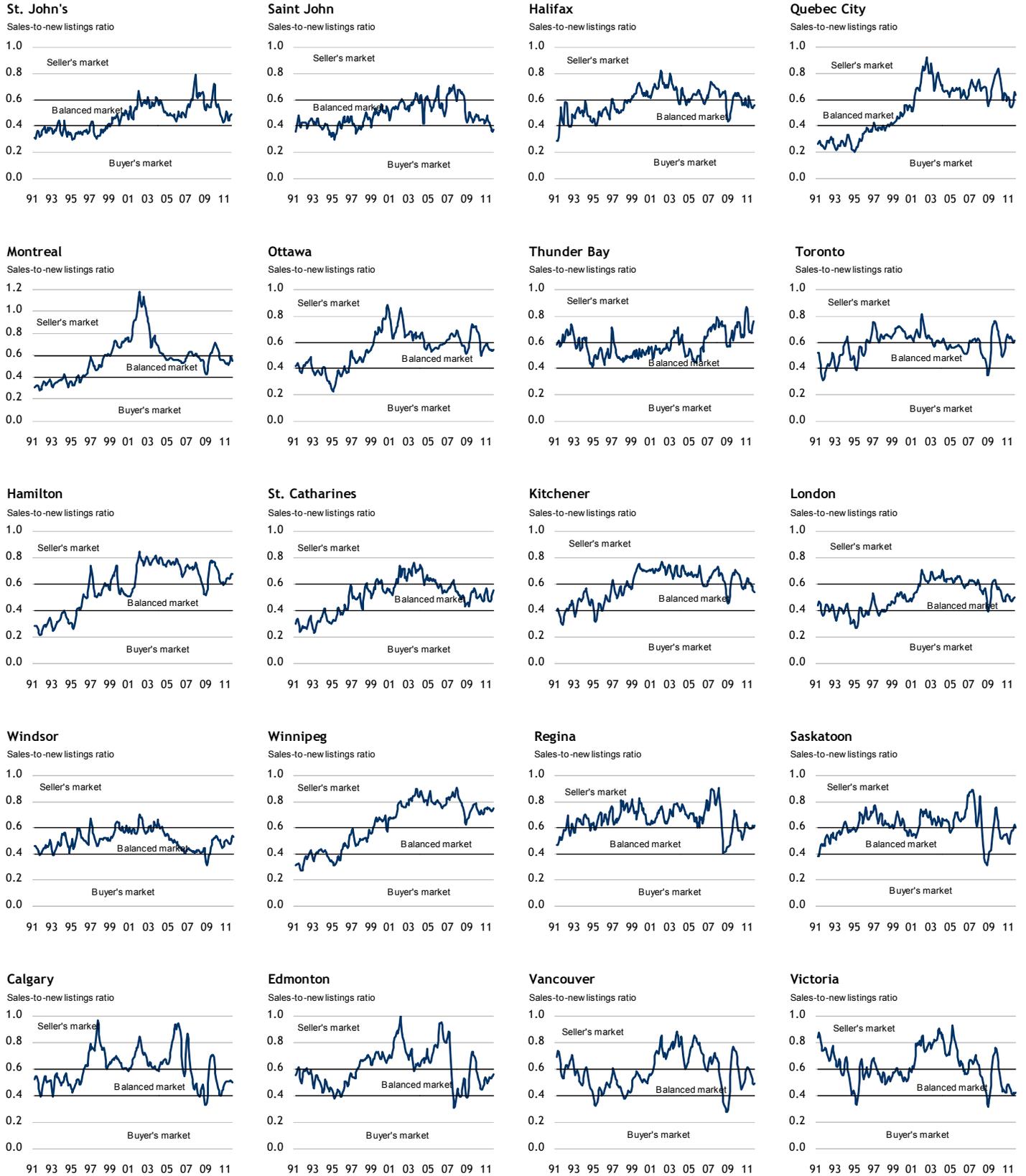


House prices are based on a three-month moving average.

Source: Canadian Real Estate Association, RBC Economics Research



# Home sales-to-new listings ratio



House prices are based on a three-month moving averages.

Source: Canadian Real Estate Association, RBC Economics Research



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