



ONTARIO HOUSING MARKET SURGES FORWARD: RBC ECONOMICS

Attractive affordability levels spur buyers' interest

TORONTO, September 9, 2009 — Surging housing resales in the past few months capped a roller coaster ride in the Ontario housing market over the last year, according to the latest housing report released today by RBC Economics.

“The Ontario housing market has rebounded impressively since the spring, after experiencing plunging activity during the fall and winter,” said Robert Hogue, senior economist at RBC. “While many communities continue to face tough economic prospects that are limiting demand, the general tone of the market has clearly turned positive.”

Hogue noted that the current upturn can be largely attributed to solid improvements in affordability. In the second quarter, RBC’s measures of affordability further extended their downward trend, moving further below long-term averages and indicating that the cost of homeownership is at historically attractive levels in the province (the lower the measure, the more inexpensive it is to afford a home).

The RBC Housing Affordability measure for Ontario, which captures the proportion of pre-tax household income needed to service the costs of owning a home, improved across all four housing class in the second quarter of 2009. Affordability of the benchmark detached bungalow in Ontario moved down to 38.3 per cent, the standard townhouse down to 31.5 per cent, the standard condo down to 26.8 per cent and the standard two-storey home to down 44.0 per cent.

In the Toronto area, RBC’s Affordability measures have fallen significantly over the past year and a half, with homeownership costs edging lower again in the second quarter by between 0.5 and 1.0 percentage points. Sales of existing homes have soared since touching a ten-year low in late 2008 and early 2009 - retracing nearly all of last year’s slide. Much tighter market conditions, with stronger demand and fewer homes listed for sale, have also seen property values on the rise again since the spring.

The Ottawa market broke sales records once housing activity restarted this spring. The RBC report indicated that this was owed in large part to affordability remaining strong through the cycle. The city did not see the same housing price run-up during the boom, or downturn in resales and property values during the recession,

which impacted many other areas of the country. RBC Affordability measures for the Ottawa area showed a second quarter decline in homeownership costs of between 0.8 and 1.2 percentage points, representing some of the largest declines in the country.

“Ottawa is likely playing catch-up with other Canadian cities, as it joined the improving trend later than most areas in the country,” Hogue added.

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

RBC’s Affordability measure for a detached bungalow for Canada’s largest cities is as follows: Vancouver 63.4 per cent, Toronto 46.5 per cent, Ottawa 38.6 per cent, Montreal 37.3 per cent and Calgary 35.7 per cent.

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 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:** In the second quarter, housing affordability in B.C. eased once again, further extending the downward trend since the start of 2008, although homeownership costs are still significantly above long-term levels. Sales of existing homes surged by more than 125 per cent from their cyclical trough early this year. Market conditions have tightened and there has been some firming of prices.
- **Alberta:** The biggest cumulative drop in the history of RBC Affordability measures in Alberta deepened further in the second quarter, falling to levels not seen since before the housing boom. Existing home sales soared by more than 60 per cent between April and July, fully reversing last year’s slide. Tightening market conditions should set the stage for some property value appreciation in the near future.

- **Saskatchewan:** Affordability has improved considerably in Saskatchewan since early last year, but homeownership costs remain above long-term averages. Regardless, sales of existing homes rebounded smartly, rising by more than 50 per cent since their lows in March. If this trend is sustained, property prices can be expected to eventually heat up as well.
- **Manitoba:** The notable easing of homeownership costs in the past year has fully repaired affordability in Manitoba, compared to historical averages. Resale activity ramped up during spring and summer and property prices generally maintained their steady upward trend, supported by relatively tight market conditions.
- **Quebec:** Housing affordability improved once again in the second quarter in Quebec, prolonging a trend that has been ongoing during the past year. Sales of existing homes surged by more than 40 per cent over the cyclical low reached mid-winter. With a more upbeat market sentiment and tightening demand-supply conditions pushing property values upward, the Quebec housing market appears to be back on track.
- **Atlantic Canada:** Rebounding from a relatively restrained downturn, housing affordability in Atlantic Canada continues to improve, albeit at a more moderate pace than elsewhere in the country. Affordability measures have declined noticeably since early last year and now stand below long-term averages. Sales of existing homes climbed by more than 18 per cent since January and property values increased modestly. Overall, Atlantic Canada is enjoying relatively attractive affordability levels, which should support housing activity in the period ahead.

The full RBC Housing Affordability report is available online, as of 8 a.m. EDT today at <http://www.rbc.com/economics/market/pdf/house.pdf>

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