



Ontario's housing market continues to sizzle: RBC Economics

TORONTO, May 25, 2010 — Ontario's hot housing market is showing few signs of letting up, causing housing affordability measures and property values to reach record highs in many parts of the province during the first quarter of 2010, according to the latest housing report released today by RBC Economics Research.

“Despite an increased supply of homes on the market, prices continue to rise which has undermined affordability,” said Robert Hogue, senior economist, RBC. “While still well below peak levels, most of the housing affordability measures now stand above their long-term average, suggesting that more and more buyers are being priced out of the Ontario market.”

The report found that housing activity in Ontario remained in top gear in the early part of the year. The RBC Housing Affordability measure for Ontario, which captures the province's proportion of pre-tax household income needed to service the costs of owning a home, rose across all four housing classes in the first quarter of 2010.

Affordability of the detached bungalow benchmark edged up to 39.6 per cent (up 0.4 of a percentage point over the last quarter), the standard townhouse to 32.7 per cent (up 0.4 of a percentage point), the standard condo to 27.8 per cent (up 0.4 of a percentage point) and the standard two-storey home to 45.4 per cent (rising 0.2 of a percentage point).

With the clock ticking toward the implementation of the HST on July 1, 2010, which will increase the transaction costs associated with a home purchase, both the demand for and supply of housing units in the province are likely being boosted by the rush of buyers and sellers to beat the tax.

The Toronto market reached new heights as strong demand catapulted sales of existing homes and property values to record highs in late 2009 and the early part of 2010. Affordability generally continued to weaken in Toronto in the first quarter, with RBC's measures creeping up between 0.3 and 0.6 percentage points for three of the four housing categories (condominiums were the only exception).

“While previously undecided sellers finally joined the fray in recent months, they continue to be outnumbered by buyers with bidding wars and quick sales still common,” added Hogue. “All Toronto housing affordability measures now exceed their long-term average, suggesting that the market's dizzying flight could soon run into some turbulence.”

The Ottawa-area market continued to chart a record-breaking path in the first few months of 2010, driven higher by motivated buyers. This strong demand added upward pressure on pricing, accelerating the pace of increases relative to the subdued gains recorded during the second half of 2009, although more homes were put up for sale. The higher prices eroded affordability in the area in the first quarter, with the RBC measures rising between 0.3 and 1.0 percentage points, reversing most of the surprising improvement in the fourth quarter.

“Although demand momentum is likely to remain brisk in the very near term, the historically-elevated costs of homeownership in the Ottawa area could well become a factor deterring buyers later this year,” noted Hogue.

RBC’s Housing Affordability measure for a detached bungalow in Canada’s largest cities is as follows: Vancouver 73.4 per cent (up 4.8 percentage points over the last quarter), Toronto 49.1 per cent (up 0.4 of a percentage point), Ottawa 40.3 per cent (up 0.3 of a percentage point), Montreal 39.7 per cent (up 0.9 of a percentage point), Calgary 36.5 per cent (down 0.3 of a percentage point) and Edmonton 32.0 (down 0.5 of a percentage point).

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

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. 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:** Homeownership became even more expensive in B.C., as strong home price momentum continued in the first quarter. Housing affordability measures have now returned close to the all-time highs reached in early-2008. This trend represents a risk that could weigh heavily on the province’s housing market in the near term.

- **Alberta:** Affordability measures eased in the first quarter, as Alberta was the only province to show a decline in the costs associated with owning a home. Housing price increases in the province were fairly modest over the past year, which has kept home ownership relatively affordable. RBC affordability measures are at or below the long-term averages.
- **Saskatchewan:** Housing prices picked up in the province in early 2010, causing home affordability measures to rise significantly in the first quarter. This is a change from previous quarters, which showed an improvement in affordability. Despite this increase, affordability measures still remain well below the all-time peak levels reached in early-2008.
- **Manitoba:** Prices for most housing types surged ahead in the first quarter of 2010, pushing affordability measures above the long-term average for the province despite a slower pace of resale activity. Affordability in the province has reached a point where an additional decline in home affordability may temper housing demand.
- **Quebec:** Quebec's housing market rally continued in the first quarter of the year, with record-levels of buying activity and rising property values. This escalation in home prices, while more moderate than in the previous two quarters, weakened affordability in the province. All affordability measures now exceed their long-term average, which may soon slow housing demand in the province.
- **Atlantic Canada:** Resale activity on the East Coast remained solid, with an increase in sales met by a rise in the supply of available homes. These broadly balanced conditions have limited the pace of price increases in the region. Overall housing affordability in Atlantic Canada continues to be among the most attractive in the country, with measures still below long-term averages.

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

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