



## ONTARIO'S HOUSING RESALE ACTIVITY ACCELERATED AND PROPERTY VALUE CLIMBED IN FOURTH QUARTER: RBC ECONOMICS

**TORONTO, February 24, 2011** — Shrugging off concerns last year that the housing market would falter, Ontario's resale activity accelerated and property values resumed appreciation in the fourth quarter of 2010, according to the latest Housing Trends and Affordability Report issued today by RBC Economics.

"Ontario's slowdown in activity last spring and summer largely reflected transitory factors, including the introduction of the HST and changes in mortgage lending rules which nudged demand forward to the start of the year," said Robert Hogue, senior economist, RBC. "The silver lining of this slowdown is a slight improvement in affordability, which at this point plays a neutral role in housing demand as affordability levels sit close to their long-run average."

The RBC Housing Affordability Measures for Ontario, which capture the province's proportion of pre-tax household income needed to service the costs of owning a home, edged lower for the second consecutive quarter for most housing categories in the fourth quarter with the exception of two-storey homes, which became marginally less affordable amid notable price gains.

The measure for the benchmark detached bungalow declined to 38.7 per cent (down 0.3 percentage points from the previous quarter) and the standard condominium to 27.3 per cent (down 0.2 percentage points), while the standard two-storey home rose to 45.1 per cent (up 0.1 percentage points).

The RBC report notes that the Toronto-area market sustained a rebound in activity in the latter part of 2010, following a steep fall in the spring and early summer from earlier unsustainably high levels.

"Toronto's market has climbed its way back toward more sustainable activity. These improvements confirm our view that earlier weakness had more to do with transitory factors than permanent evaporation of demand," said Hogue.

Owing primarily to lower mortgage rates, Toronto-area homebuyers enjoyed improved affordability in most housing categories with measures generally standing close to long-term averages in the fourth quarter. RBC Measures eased for both condominium apartments and detached bungalows (down 0.6 and 0.5 percentage points respectively). On the other hand, two-storey homes rose by a modest 0.3 percentage points.

Ottawa's housing market saw fairly sizeable price increases which pushed homeownership costs up; however, savings generated by lower mortgage rates provided some offset.

"Contrary to the general trend among Canada's large cities, Ottawa did not experience an improvement in affordability," noted Hogue. "Nevertheless, waning affordability did little to dampen enthusiasm of homebuyers with home resales trending to strong levels experienced prior to the wild swings in 2009 and early 2010."

Ottawa's affordability has deteriorated to levels likely to pinch demand going forward. RBC Measures for Ottawa are above their long-run averages for all housing types in the area. The measure for detached bungalows and condominium apartments both rose by 0.5 percentage points, while the measure remained unchanged for two-storey homes.

Elsewhere in the country, a majority of provinces saw improvements in affordability in the fourth quarter. Only the standard two-storey benchmark became less affordable in Ontario and Quebec, as did the standard condominium apartment in Quebec and the Atlantic region.

RBC's Housing Affordability Measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 68.7 per cent (down 0.4 percentage points from the last quarter), Toronto 46.8 per cent (down 0.5 percentage points), Montreal 41.3 per cent (down 0.4 percentage points), Ottawa 38.7 per cent (up 0.5 percentage points), Calgary 34.9 per cent (down 3.1 percentage points) and Edmonton 31.0 per cent (down 2.4 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. Alternative housing types are also presented including a standard two-storey home 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:** Buying a home in B.C. became slightly more affordable in the fourth quarter of 2010, due primarily to a small drop in mortgage rates. After experiencing some declines in the previous quarter, home prices rose modestly for most housing categories; condominium apartments bucked the trend, however, and depreciated slightly. Prices were supported by a tightening in market conditions with home resales picking up smartly following substantial cooling in the spring and summer that saw sellers lose their edge in setting property values. Demand and supply in the province are judged to be quite balanced at this point. RBC's Affordability Measures fell between 0.8 and 1.0 percentage points in the fourth quarter which came on the heels of much more substantial drops (1.7 to 4.8 percentage points) in the third quarter. Notwithstanding these declines, affordability remains poor and will weigh on housing demand going forward.
- **Alberta:** Alberta officially became the most affordable provincial market in the country in the fourth quarter, according to the RBC Measures which fell once again by 1.0 to 2.4 percentage points, extending their declines since late-2007. In addition to the lower mortgage rates, the further depreciation of home prices contributed to lowering homeownership costs. Property values were negatively affected by a substantial downswing in demand in the spring and early summer, which put buyers in the drivers' seat. The significant improvement in affordability is near the end of its line, however, as demand has shown more vigour in recent months – alongside a provincial economy that is gaining more traction – and the market has become better balanced. RBC expects that this will stem price declines this year, thereby removing a potential offset to the negative effect of projected rise in interest rates on affordability.

- **Saskatchewan:** The provincial housing market finished 2010 on an enviable note as affordability improved even though home prices, for the most part, rose slightly in the fourth quarter. Generally, the price increases more than reversed declines in the previous period but were too small to negate the beneficial effect of lower mortgage rates. The home resale market gained back solid forward momentum in the second half of 2010, notwithstanding some softening in the final months, which re-established a stronger balance between demand and supply. The RBC Measures fell between 0.6 and 1.1 percentage points in the quarter, although the levels continue to be modestly above historical averages in the province. RBC projects the Saskatchewan market will take its current affordability position in stride as a rebound in provincial economic growth and continued strong migration inflows will support housing demand this year.
- **Manitoba:** Manitoba's market enjoyed the best of both worlds in the fourth quarter of 2010 as home price were higher but ownership costs were lower. Thanks to lower mortgage rates in the quarter and continued growth in household income, the negative effect of small gains in property values on affordability was more than offset. The RBC Measures eased between 0.1 and 0.6 percentage points in the fourth quarter, keeping Manitoba among the only two provincial markets in Canada (with Alberta) in which Affordability Measures stand below long-term averages for all housing categories. Sales of existing homes ramped up considerably in the fall, reaching near historical peaks by December. Housing demand is being boosted by the strongest net international immigration in the province since the mid 1950s and by improved job prospects – Manitoba boasts the lowest unemployment rate in Canada (as of the fourth quarter of 2010) and RBC expects this to continue in 2011.
- **Quebec:** Higher home prices in the fourth quarter of 2010 caused some deterioration in affordability following meaningful improvement in the previous period. Home resales strengthened in the latter part of 2010, contributing to tightened market conditions that gave sellers a stronger hand in negotiating prices, particularly for two-storey homes. Price gains and rising household income dominated the positive effects of lower mortgage rates on affordability in the fourth quarter for all housing types except detached bungalows (where a small improvement was registered). RBC Measures rose marginally by 0.1 to 0.2 percentage points for two-storey homes and condominium apartments, and fell by 0.6 percentage points for detached bungalows; however, the levels of all Measures

still modestly exceeded long-term averages in the province. RBC expects that modestly strained affordability in Quebec will further deteriorate in the period ahead when interest rates rise.

- **Atlantic Canada:** Home resale activity sputtered late in 2010 and reversed some of the gains achieved at the end of the summer and early fall. This has not disrupted property values in the fourth quarter as home prices generally appreciated; yet, housing affordability improved for most housing categories because declines in interest rates provided a dominant offset. Only condominium apartments saw a slim deterioration in affordability as the RBC Measures rose by 0.1 percentage point compared with declines of 0.5 percentage points for detached bungalows and two-storey homes. Affordability levels continue to be mostly attractive in Atlantic Canada from both historical and cross-country perspectives. RBC projects that is likely to remain so in the near-term despite our expectation of higher interest rates. Market conditions have recently swung in favour of buyers which will exert downward pressure on prices in coming months.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today at [www.rbc.com/economics/market/pdf/house.pdf](http://www.rbc.com/economics/market/pdf/house.pdf).

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