



ONTARIO'S HOUSING AFFORDABILITY STEADY, DESPITE RISE IN HOME PRICES: RBC ECONOMICS

Toronto and Ottawa homebuyers experience a slight erosion in affordability

TORONTO, May 20, 2011 — Ontario's housing affordability remained fairly stable in the early part of 2011, and home prices and resale activity increased at a steady rate, according to the latest Housing Trends and Affordability Report issued today by RBC Economics.

“Ontario's housing market has reached a cruising speed since the end of 2010 and seems to be on a sustainable path so far this year. The demand-supply equation has remained balanced for the most part, but has firmed just enough to give the sellers a slightly stronger hand,” said Robert Hogue, senior economist, RBC. “The provincial market will likely face some headwinds in the coming months, however, as stricter mortgage lending rules and an expected rise in interest rates weigh on homebuyer demand.”

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, changed little at the start of 2011 and stand very close to the long-term averages. The measure for the benchmark detached bungalow increased to 39.3 per cent (up 0.5 of a percentage point from the previous quarter) and the standard condominium raised a slim 0.1 of a percentage point to 27.5 per cent, while the standard two-storey home eased to 44.6 per cent (down 0.6 of a percentage point).

The RBC report notes that the Toronto-area housing market maintained its momentum in the first quarter, with home resale activity recovering much of the ground lost during its downswing last spring and summer.

“Toronto's strength earlier this year is likely in part a reflection of the changes in mortgage lending rules that took effect in March and April, which pulled activity forward that would have otherwise occurred later in the year. Consequently, some of this vigour could very well be reversed in the coming months,” said Hogue. “Somewhat tense market conditions in the first quarter fuelled appreciation in property values and led to some erosion in affordability.”

Toronto-area affordability measures rose for detached bungalows and standard condominiums (up 0.8 and 0.1 of a percentage point, respectively) in the latest period, but eased for standard two-storey homes by 0.9 of a percentage point to 55.6 per cent.

“Despite signs of deterioration, affordability levels in Toronto remain close to their long-term averages, indicating that the cost of owning a home has not yet reached dangerously high levels in the GTA,” added Hogue.

Over the first three months of 2011, homeownership also became a little less affordable in the Ottawa area, as residential property values increased for the second consecutive quarter and boosted the ownership costs of most housing types.

“Market conditions in Ottawa tightened early this year because of a decline of new properties being offered for sale,” noted Hogue. “Nevertheless, the impact of rising prices on homebuyer’s ability to afford a home was tempered by continued income gains in the city, which provided some extra budget room.”

RBC measures for the Ottawa-area increased modestly in the first quarter by 0.4 of a percentage point for both detached bungalows and two-storey homes and recorded no change for standard condominiums. It is expected that deteriorating affordability in the area will increasingly restrain housing demand going forward.

The majority of Canadian markets experienced weakened affordability in the first quarter of 2011. Most notable was the sizeable deterioration in British Columbia. More specifically, Vancouver saw significant gains in property values, which drove the already elevated cost of homeownership even higher. Quebec’s homebuyers also faced noticeable rises in ownership costs, while those in Atlantic Canada saw their affordability advantage somewhat diminish. The picture remained mixed in other areas of the country, with Ontario, Alberta and Saskatchewan experiencing ups and downs in ownership costs, depending on the housing type.

“Despite the latest erosion in affordability, provincial levels generally continue to stand near their long-term averages, suggesting that owning a home remains affordable or, at worst, slightly unaffordable across Canada – with Vancouver being a notable exception,” said Hogue.

RBC's housing affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 72.1 per cent (up 3.4 percentage points from the last quarter), Toronto 47.5 per cent (up 0.8 of a percentage point), Montreal 43.1 per cent (up 2.0 percentage points), Ottawa 39.0 per cent (up 0.4 of a percentage point), Calgary 35.9 per cent (up 0.9 of a percentage point) and Edmonton 31.5 per cent (up 0.5 of a percentage point).

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:** Strong home price increases reduced affordability in the province in the first quarter. The RBC measures for British Columbia rose between 0.8 of a percentage point and 1.8 percentage points, the most significant increases of all the provinces. The lack of affordability will continue to weigh on local demand and could potentially cause painful market disruptions in the period ahead.
 - Vancouver affordability continued to wane, as measures climbed between 1.0 percentage point and 3.4 percentage points, and moved closer to all-time highs.
- **Alberta:** Stable or slightly declining prices, contributed to substantial improvements in affordability in Alberta last year. While market conditions have become more balanced in recent months, there remains very little pricing momentum in the province. The RBC measures for all housing categories in Alberta stood below their long-term average in the first quarter.
 - There are tentative signs that the Calgary market is finally firming up. Area homebuyers are benefiting from attractive affordability, which remained the best among Canada's major cities.

- **Saskatchewan:** Following solid performance in the second half of last year, some softening in property values in the early months of 2011 led to a further decrease in the cost of owning a home in Saskatchewan. The RBC measures for bungalows and two-storey homes fell by 0.7 of a percentage point in the first quarter, representing a third consecutive quarterly improvement in affordability. Condominium apartments bucked this trend and saw their affordability modestly deteriorate in the face of higher prices.
- **Manitoba:** Housing affordability continues to be attractive in Manitoba, with little change registered in the first quarter. Measures rose by 0.1 of a percentage point for detached bungalows, declined by 0.2 of a percentage point for condominium apartments and stayed even for two-storey homes. Manitoba is still one of only two provincial markets (alongside Alberta) where affordability measures stand below long-term averages for all housing categories.
- **Quebec:** Quebec homebuyers faced higher ownership costs in the first quarter, which weighed significantly on affordability. RBC measures rose by 1.1 percentage points for detached bungalows and 1.3 percentage points for two-storey homes, both representing the second largest increases behind those recorded in British Columbia. All measures in Quebec stand slightly above their long-term averages, corresponding to a moderate strain in affordability in the province.
 - Montreal's affordability measures rose between 0.1 of a percentage point and 2.8 percentage points in the first quarter of 2011, pushing levels for all housing types above national and long-term averages for the area.
- **Atlantic Canada:** In the first quarter, rebounding housing market activity has boosted property values in Atlantic Canada. Home resales in the region climbed solidly for the second consecutive period and further reversed some of the declines that occurred last year. The downside has been a modest fall in the region's affordability position. Affordability measures for Atlantic Canada increased between 0.6 and 0.9 of a percentage point in the latest period, although levels hovered near long-term averages and remained among the lowest in the country.

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.

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