



The rush is over for Ontario homebuyers amid eroding affordability: RBC Economics

TORONTO, September 27, 2010 — Ontario's housing affordability eroded in the second quarter of this year for the fourth consecutive time and contributed to the significant slowing in resale activity since spring, according to the latest housing report released today by RBC Economics.

“After setting record highs this past winter, Ontario home resales have since come down to earth due to a number of transitory factors including the HST, changes in mortgage lending rules and the rush of first-time homebuyers to lock in low mortgage rates,” said Robert Hogue, senior economist, RBC. “The deterioration in housing affordability, which continues to reverse the considerable improvements achieved in late-2008 and early-2009, has also played a role in the recent decline.”

The RBC Housing Affordability Measures for Ontario, which capture the proportion of pre-tax household income needed to service the costs of owning a home, rose between 1.3 and 2.6 percentage points across all housing types in the second quarter of 2010 (a rise in the measure means a loss of affordability). The measure for the benchmark detached bungalow increased to 41.2 per cent (a rise of 2.3 percentage points over the previous quarter), the standard townhouse to 33.9 per cent (up 1.6 percentage points), the standard condominium to 28.8 per cent (up 1.3 percentage points) and the standard two-storey home to 47.4 per cent (up 2.6 percentage points).

The RBC report notes that the high-flying Toronto market was also not immune from the effects of the transitory factors and experienced significant declines in activity in recent months. Moreover, the deteriorating trend in Toronto's housing affordability continued in the second quarter, with RBC measures climbing 1.2 to 3.1 percentage points, reaching levels that now exceed long-term averages.

“The wild downswing in home resales could have caused some drama for Toronto area property values in the second quarter; however, a prompt retreat by sellers kept the demand-supply equation in balance and home prices largely resisted any emerging weakening forces,” added Hogue.

RBC also notes that Ottawa's affordability levels edged closer to all-time highs in the second quarter with measures rising between 1.6 and 3.6 percentage points, representing some of the largest increases among major Canadian cities.

“The spring was a rude awakening for the Ottawa area market as home resales plummeted to depths even lower than those reached at the worst of the 2008 downturn,” said Hogue. “While transitory factors such as the HST undoubtedly played a role in bringing forward sales earlier this year, increasing homeownership costs in the past year likely contributed in discouraging some buyers and could well become a prominent factor deterring buyers going forward.”

Ontario and British Columbia saw the most significant deterioration in affordability in the second quarter; however, some improvements in specific housing types occurred in Alberta (condominiums) and Saskatchewan (townhouses). All other provinces showed modest erosion, with the exception of two-storey homes in Manitoba where the rise in the RBC measure was quite substantial.

RBC’s Housing Affordability Measure for a detached bungalow in Canada’s largest cities is as follows: Vancouver 74.0 per cent (up 1.7 percentage points from the last quarter), Toronto 50.2 per cent (up 2.4 percentage points), Montreal 43.2 per cent (up 1.8 percentage points), Ottawa 41.2 per cent (up 3.6 percentage points), Calgary 39.2 per cent (up 0.9 percentage point) and Edmonton 34.7 (up 2.5 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. 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 in B.C. is testing household budgets with affordability deteriorating again in the second quarter despite downward pressure on home prices and market activity sinking since the start of this year. RBC’s measures rose between 1.1 and 2.5 percentage points, representing some of the strongest increases among the provinces, and are near all-time highs for all housing categories. Very poor affordability is likely to restrain demand in the period ahead.

- **Alberta:** Affordability measures have improved in Alberta since early 2008 as a result of lacklustre housing market conditions. The second quarter saw a mixed picture with prices easing slightly for condominiums but rising in all other categories. RBC notes that affordability measures are at or below their long-term averages, implying little downside risk to the market and boding well for a strengthening in housing demand once the provincial job market shows more substantial gains.
- **Saskatchewan:** Rising mortgage rates during the quarter caused further deterioration in affordability for most housing types in the province. With the sole exception of townhouses edging lower, increases in affordability measures pushed levels further above long-term averages, indicating that some tensions may be building. RBC expects a strong rebound in the provincial economy this year and next which is likely to help ease such tensions.
- **Manitoba:** Sellers kept a firm hand on pricing by reducing the supply of homes available for sale in the province, resulting in home prices continuing to appreciate, particularly for two-storey homes, which is translating into further deterioration of housing affordability. Homebuyers are feeling more pressure with affordability measures standing close to long-term averages.
- **Quebec:** Quebec's record-breaking housing market rally proved to be unsustainable in the second quarter with resale activity settling to a pace comparable to levels witnessed in 2006-2007, which were considered to be fairly vigorous at the time. Affordability was hampered by home prices trending upward with RBC affordability measures now at or very close to the pre-downturn peaks and exceeding their long-term averages. Further increases in homeownership costs could have a more visibly adverse effect on housing demand.
- **Atlantic Canada:** The East Coast housing market was not immune to the significant downturn in activity that swept across the country since spring with housing resales falling back across the region to the lows reached during late-2008 and early-2009. Cooling demand loosened up market conditions, restraining home price increases and limiting the rise in affordability measures which remain very close to long-term averages. Overall, housing affordability in Atlantic Canada remains attractive and signals little undue stress at this point.

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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