



ONTARIO'S HOUSING MARKET SHIFTS INTO HIGH GEAR: RBC ECONOMICS

But higher prices cause only slight increase in home ownership costs

TORONTO, March 15, 2010 — With resale activity reaching pre-recession levels and property values increasing, Ontario's housing affordability deteriorated in the fourth quarter of 2009, marking the second consecutive quarter where affordability declined, according to the latest housing report released today by RBC Economics Research.

After rising for the first time in roughly a year during the third quarter, RBC's Housing Affordability measures showed further increases for two of the four housing types tracked by the report (a rise in the measure represents a decline in affordability). Overall damage to affordability was relatively small in the province. The measures for detached bungalows and two-storey homes measures rose only 0.1 and 0.2 percentage points, while rates for Ontario's townhouses and condominiums were unchanged.

"Ontario's resale activity recently reached record levels and has recovered impressively from the losses during last year's downturn," said Robert Hogue, senior economist, RBC. "Prices have rebounded to new heights for most housing categories, but these increases have only slightly weakened housing affordability in the fourth quarter."

A small decline in mortgage rates and continued growth in household income largely neutralized the effect of higher prices, keeping affordability close to long-term averages.

RBC expects demand for housing to receive a further boost in the spring from buyers rushing in 'to beat' the implementation of the HST, which will increase the transaction costs associated with a home purchase, on July 1, 2010.

High demand continues to grip the Greater Toronto Area market, lifting sales of existing homes to all-time highs in recent months. All RBC measures rose for the second-straight quarter – up 0.1 percentage point for bungalows and townhouses, 0.2 percentage points for condominiums and 0.3 percentage points for two-storey homes.

“The keen buyer interest in Toronto however, has largely failed to attract more sellers, resulting in frequent bidding wars for available homes,” added Hogue. “The resulting price increases has caused affordability to slip and the RBC measures to move above long-term averages in the area, suggesting that stress is starting to build in the Toronto market.”

In the fourth quarter of 2009, Ottawa’s housing market enjoyed the best of both worlds with strong activity and improving affordability taking effect at the same time. Home resales hovered just below all-time highs in recent months, fuelled by buyers taking advantage of exceptionally low mortgage rates and a generally restrained pace of price appreciation. RBC measures declined between 0.1 and 0.4 percentage points in the city across all categories in the fourth quarter.

“The restraint in pricing might reflect some push back from buyers in light of the fact that, despite the small improvement in the fourth quarter, ownership costs remain historically elevated relative to household incomes in Ottawa,” noted Hogue.

RBC’s Housing Affordability measure for a detached bungalow for Canada’s largest cities is as follows: Vancouver 69 per cent (up 1.4 percentage points), Toronto 49.1 per cent (up 0.1 percentage point), Ottawa 40.4 per cent (down 0.3 percentage points), Montreal 39.1 per cent (up 0.9 percentage points), Calgary 37.1 per cent (up 0.1 percentage point) and Edmonton 32.9 per cent (down 0.4 percentage points).

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 costs are rising in B.C. as very strong demand and a limited supply of homes for sale combine to propel prices substantially higher. All home affordability measures are above long-term averages in the province, a trend that is likely to continue in the near term.
- **Alberta:** The lagging economic recovery in Alberta, compared to other provinces, has stabilized housing affordability rates. Excessive supply left over from last year's downturn and housing slump has limited increases in housing prices. Attractive affordability levels and additional economic recovery should boost housing demand over the next year.
- **Saskatchewan:** Increased supply and lessened demand has put a damper on the housing market in the province, as the real estate market cooled from the heightened resale activity in the spring and summer. While home affordability improved in the province, the cost of owning a home still remains historically high.
- **Manitoba:** Manitoba's real estate market picked up considerably over the last quarter of 2009. Prices for condominiums and two-storey homes rose significantly, causing affordability levels to deteriorate in the province. Despite these increases, affordability levels are in line with long-term averages as Manitobans still see the costs associated with owning a home as manageable.
- **Quebec:** The provincial rally in the resale housing market shows few signs of slowing, as property values have fully recovered what little ground was lost during the downturn early last year. Home prices have risen substantially for most housing categories in the fourth quarter in Quebec, causing some of the sharper deteriorations in affordability among provinces.
- **Atlantic Canada:** Unlike many other parts of the country, housing affordability on the East Coast generally continued to improve in the fourth quarter. With most measures below long-term averages, activity in the housing resale market should remain elevated.

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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