



ONTARIO'S HOUSING AFFORDABILITY IMPROVES IN THIRD QUARTER: RBC ECONOMICS

TORONTO, November 29, 2010 — After four consecutive quarterly increases, the cost of homeownership in Ontario declined in the third quarter as a result of lower mortgage rates and some softening in property values, according to the latest Housing Trends and Affordability report released today by RBC Economics Research.

Existing home sales ended their earlier precipitous slide by sustaining three straight gains, on a seasonally adjusted basis, from August to October.

“This recovery confirmed our earlier expectation that the slowdown in activity through the spring and summer largely reflected various transitory factors – such as the HST and changes in mortgage lending rules – bringing demand forward at the start of the year,” said Robert Hogue, senior economist, RBC. “With the market now back in balance, recent softness in home prices will prove to be a healthy recalibration following a strong rally.”

Ontario's housing fundamentals have taken a positive turn with RBC Measures falling between 1.3 and 2.4 percentage points, fully reversing the increase in the second quarter.

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, declined across all three housing types in the third quarter of 2010. The measure for the benchmark detached bungalow moved down to 38.9 per cent (a drop of 2.2 percentage points from the previous quarter), the standard condominium to 27.4 per cent (down 1.3 percentage points) and the standard two-storey home to 44.9 per cent (down 2.4 percentage points).

The RBC report notes that Toronto's recovery since August confirmed the city's housing market gyrations were more a reaction to activity surrounding transitory factors like the HST and new mortgage lending rules, rather than disappearing demand. The influence of these factors largely dissipated by the end of the summer as the Toronto-area market moved towards more sustainable levels of activity. Following four consecutive quarters of increases, the RBC Housing Affordability Measures fell appreciably between 1.2 and 3.8 percentage points in the third quarter. These measures are now close to long-term averages, consistent with moderate tensions being exerted on homebuyers.

“Although it triggered a fair amount of anxiety while unfolding, the Toronto area market’s return to earth this spring was a mostly benign affair in retrospect,” said Hogue. “The fears were that the payback for the clearly unsustainable record high levels of existing home sales at the start of this year would be an all-out defeat.”

After reaching all-time highs early this year, Ottawa’s home resales plummeted in May, as homebuyers opted to sit out the traditionally strong spring season. While market movements were somewhat more dramatic than other areas of the province, they were largely driven by transitory factors. RBC’s third quarter measures for Ottawa dropped between 2.0 and 2.9 percentage points helping to reduce some accumulated stress in the market.

“Once again, the Ottawa-area housing market demonstrated its ability to move past soft patches with minimal damage. It wasn’t surprising to see Ottawa’s homebuyers cautiously return to the market early this fall as they adjusted to changes in the housing market,” added Hogue. “Weak demand in the spring and summer in tandem with strong availability of homes applied downward pressure on prices and improved affordability in the third quarter.”

All provinces saw improvements in affordability in the third quarter, particularly in British Columbia where elevated property values amplified the effect of the decline in mortgage rates on monthly mortgage charges. Alberta and Manitoba are the only two provinces where the RBC Measures stand below their long-term average in all housing categories, indicating little stress in these markets.

RBC’s Housing Affordability Measure for a detached bungalow in Canada’s largest cities is as follows: Vancouver 68.8 per cent (down 5.4 percentage points from the last quarter), Toronto 47.2 per cent (down 3.0 percentage points), Montreal 41.7 per cent (down 1.3 percentage points), Ottawa 38.2 per cent (down 2.9 percentage points), Calgary 37.1 per cent (down 2.0 percentage points) and Edmonton 32.7 per cent (down 2.0 percentage points).

The RBC Housing Trends and 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:** Lower home prices and declining mortgage rates brought the B.C. housing market some welcomed reprieve in the third quarter from the significant deterioration in affordability recorded since the middle of 2009. Amid much cooler resale activity through the spring and summer and greater availability of properties for sale, home prices either fell, particularly for bungalows, or remained stable in the case of condominium apartments. The RBC Housing Affordability Measures for B.C. dropped between 1.8 and 5.0 percentage points, representing the largest declines since the first quarter of 2009; however, all remained significantly above long-term averages. Poor affordability is likely to continue to weigh on housing demand in the province in the period ahead.
- **Alberta:** Despite recording substantial affordability improvements since early 2008, housing demand in Alberta is still a shadow of its former self from just a few years ago and there are few signs that it is picking up meaningfully. The RBC Measures eased between 0.8 and 1.8 percentage points, more than reversing modest rises in the second quarter. Homeownership is among the most affordable in Canada both in absolute terms and relative to historical averages. RBC notes such a high degree of affordability bodes well for a strengthening housing demand once the provincial job market sustains more substantial gains.
- **Saskatchewan:** Saskatchewan home resales rebounded since August and reversed most of their slide in the first half of this year; however, the earlier softening of activity had a lingering effect on home prices which fell across all housing types relative to the second quarter. RBC's Affordability Measures dropped between 1.8 and 2.2 percentage points, the most since early 2009 but still modestly above their long-term average, suggesting that current market conditions might be stretching Saskatchewan homebuyers' budgets to a degree.
- **Manitoba:** Manitoba's housing resales picked up smartly in September and October, swiftly turning the page on a particularly weak summer period, with provincial homebuyers taking advantage of improving affordability. RBC's Measures fell between 0.9 and 2.3 percentage points, reversing one-half to three-quarters of the increase that occurred since the spring of 2009. Manitoba is one of only two provinces, with Alberta, where the measures for all housing types are currently below their long-term averages, which will be a supportive factor for demand going forward.

- **Quebec:** The Quebec housing market is making its way towards more stable activity levels after plummeting to six-year lows at the end of 2008 and then surging to all-time highs at the start of 2010. Supporting this trend in the near term is an improvement in affordability in the third quarter. Following four consecutive increases, the RBC Measures for the province fell 1.4 to 1.8 percentage points depending on the housing type, but still remain close to the pre-downturn peaks and above their long-term average, which will likely restrain growth in demand in the period ahead.
- **Atlantic Canada:** The East Coast housing market picked up some steam early this fall following a marked cooling in activity in the spring when resales fell back to the lows reached at the end of 2008. Modest price declines and a drop in mortgage rates contributed to lower third quarter homeownership costs with RBC's Measures moving down between 1.0 and 1.5 percentage points in the third quarter and returning roughly to the levels experienced in mid- to late-2009. Overall, housing affordability remains attractive in Atlantic Canada.

The full RBC Housing 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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