

# CANADA'S REAL ESTATE MARKET TO COOL SLIGHTLY AFTER STRONG FIRST HALF

Typical annual market cycle was front-loaded in Q1 and Q2 but increasing supply of homes for sale will bring average Canadian home prices down in third and fourth quarters

**TORONTO, July 7, 2010** – Canada's residential real estate market will start to slow in the second half of 2010 after two quarters of strong price appreciation and sales activity, according to the Royal LePage House Price Survey and Market Survey Forecast released today. While market fundamentals remain strong across most major centres in Canada, sales activity was overly 'front-loaded' in the first half of the year and is expected to cool off for the third and fourth quarters. Prices are also expected to steady in the second half of the year.

In the second quarter, the average price of a detached bungalow in Canada was up 9 percent to \$331,868, compared to a year ago. Over the same period, standard two-storey homes rose 8.7 percent to \$367,835 while standard condominiums rose 7.3 percent to \$230,014. Royal LePage is forecasting that by the end of 2010, home price appreciation will average 6.8 percent year-over-year, while home sales will increase by just over one percent compared to 2009.

"We have seen an unusual pattern of activity in the housing market over the past 12 months, with the market experiencing a surge of activity and price increases that peaked in the fall of 2009 rather than spring. Early 2010 has followed a more typical seasonal pattern with prices and activity peaking in the second quarter," said Phil Soper, president and chief executive, Royal LePage Real Estate Services. "An expected increase in the supply of homes on the market will now bring stabilization in prices and in some cities we will see both prices and unit sales decline towards the end of the year. This should not be interpreted as a severe correction but rather a natural reaction to the market having peaked quite early this year."

The surge of activity in the first and second quarters of 2010 corresponds to a number of significant regulatory and financial industry changes that affected home buyers over the same period, including an increase in interest rates in the spring, tightening of mortgage lending rules for first time homebuyers and investors, and the lead up to the introduction of the HST in British Columbia and Ontario.

"Anecdotal evidence suggests that these factors may have prompted an increase in housing market activity in early 2010, as people sought to get out ahead of the changes," Soper said. "Moving into the next six months, key economic indicators such as employment growth will continue to bolster consumer confidence and help to ensure a fundamentally healthy housing market. Home prices will remain flat or decline slightly in most cities, but will be more likely to hold their value or increase in energy-producing economies such as Alberta."

Among the regions that posted year-over-year price increases in the second quarter, Canada's two biggest markets posted some of the largest. Average prices in Vancouver were up 16.6 to 19.1 per cent while prices in Toronto rose by an average of 7.7 to 11.4 per cent. In recent years these markets, however, have tended to react much more aggressively to external stimulus and affordability is expected to erode after the sharp price increases posted in Q2. As a result, downward pressure on prices is expected for the remainder of the year.

Similarly, the country's sharpest price increases occurred in St. John's, NL, with prices up an average of 18.4 to 19.6 per cent. A strong local economy driven by the oil sector combined with low inventory led to the robust increases, but eroding affordability and interest rates that are expected to rise will likely lead to more moderate price appreciation in the second half of the year.

## REGIONAL MARKET SUMMARIES

The residential real estate market in **Halifax** saw year-over-year price gains across all three housing types surveyed for the second quarter of this year. Higher prices were supported by a nearly 20 per cent drop in inventory levels over the previous year and by buyers looking to finalize sales prior to interest rate and tax hikes.

**Montreal** saw consistent year-over-year price appreciation across all housing types surveyed in the second quarter. While first-time homebuyers were active at the beginning of the year, the last two months of this quarter saw a shift in activity to second and third-time buyers as affordability eroded. Activity may slow down in July but will increase in September as first-time homebuyers return to the market.

The real estate market in **Ottawa** has remained strong as prices increased across all housing types this quarter over the second quarter of 2009. The market continues to benefit from strong immigration and steady employment in the public sector. Prices are expected to soften later this year as inventory levels start to build.

**Toronto** house prices are higher this quarter than prices seen in the same period last year. The market strength continued from the last half of 2009 as buyers were motivated by low interest rates and a desire to beat the HST. The Toronto market is expected to experience a modest decline in prices in the second half of the year.

Detached bungalows, standard two-storey homes, and standard condominiums in **Winnipeg** all saw price gains this quarter as compared to the second quarter of 2009. Price increases were also seen across almost all neighbourhoods in the city though market activity is expected to slow as the year continues.

Inventory levels in **Regina** are currently at 25 per cent above historical levels, contributing to a more modest year-over-year price increase this quarter compared to other parts of the country. Rising interest rates and growing inventory are offset by low vacancy rates and strong employment levels. Homes are often selling below asking price, and people may be slower to trade up to more expensive homes, which will likely lead to a relaxed market for the remainder of 2010.

The real estate market in **Calgary** is beginning to lean in favour of the buyer. Price levels for detached bungalows and standard two-storey homes are moderately higher in the second quarter of 2010 compared to last year, but average prices for standard condominiums have dropped slightly over the same period. Inventory levels have been high and price increases are expected to remain nominal for the remainder of 2010.

Prices for detached bungalows and standard two-storey homes in **Edmonton** increased modestly over second quarter levels of 2009, while standard condominium prices have dropped. As markets continue to stabilize and inventory levels return to normal, prices are expected to decrease slightly over the rest of this year.

Despite inventory levels rising by 30 per cent, pending HST implementation and anticipated increases in interest rates have driven demand in **Vancouver's** housing market. The average prices for all three housing types surveyed rose between 16.6 and 19.1 per cent in year-over-year analysis for this quarter. Continued high inventory levels are, however, expected to put downward pressure on prices during the second half of 2010.

## About Royal LePage

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