



ONTARIO'S HOUSING AFFORDABILITY CONDITIONS WERE LITTLE CHANGED IN Q4 2013: RBC ECONOMICS

Toronto area the only market where affordability slips in all categories

TORONTO, February 25, 2014 — Housing affordability in Ontario remained somewhat strained in the fourth quarter of 2013, although there was some modest reprieve in the detached homes categories for the first time in a year, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

RBC notes that the persistence of possible affordability-related stress in the single-detached homes categories may have contributed to a moderation in housing market activity in the closing quarter of last year.

“Home resales fell 4.0 per cent between the third and fourth quarters of 2013 in Ontario, yet the level of market activity in Ontario essentially matched the 10-year average, which is hardly a sign of weakness,” said Craig Wright, senior vice-president and chief economist, RBC. “A drop in new listings may have also contributed to the moderation in activity, possibly frustrating some potential buyers who may have opted to wait for more suitable offerings at a later date.”

RBC's housing affordability measures, which capture the proportion of pre-tax household income needed to service the costs of owning a home at market values, eased slightly in Ontario in the fourth quarter of 2014 (a decline in the measure represents an improvement in affordability).

RBC's measures declined by 0.1 percentage points for bungalows and two-storey homes to 44.7 per cent and 50.3 per cent, respectively, while condo affordability remained unchanged at 29.5 per cent.

Toronto-area affordability erodes across the board in Q4

“Toronto was the only market in Canada that saw across-the-board deterioration in affordability during the fourth quarter,” said Wright. “While affordability measures rose only mildly, they added to a series of increases since 2010 and extended the well-entrenched deteriorating trend in the city, particularly for the single-detached categories.”

Owning a two-storey home or a bungalow in Toronto now appears to be a bit of a stretch for prospective homebuyers, RBC says, as measures for these categories stand noticeably higher than their historical norms. Owning a condominium at market value is also somewhat of a stretch, but not nearly as much as that for detached homes.

RBC's measures rose for all housing categories in the fourth quarter: by 0.2 percentage points for both two-storey homes (to 63.7 per cent) and condominium apartments (to 33.9 per cent), and by 0.1 percentage points for bungalows (to 55.6 per cent).

The RBC report notes that while affordability tensions may have been a factor in a 6.3 per cent decline in home resales, the weather – including a major ice storm in December, – and a slowdown in new listings in the second half of 2013 were likely the more dominant factors.

Ottawa – Employment uncertainty could be eroding buyer confidence

Home resales in the Ottawa area fell to their lowest levels since mid-2010 in the fourth quarter of 2013. The drop – which may reflect increased employment uncertainty in the area after a loss of 20,000 jobs in the Ottawa-Gatineau area during the first three quarters of 2013 – followed a year during which activity maintained a fairly steady pace near its 10-year average.

“Ottawa’s supply-demand conditions evolved mostly in favour of buyers over the past two years and more recently buyers used this stronger negotiating power to drive housing prices lower,” said Wright. “This has led to an improvement in affordability in the Ottawa area.”

RBC measures for Ottawa declined by 0.4 percentage points for both two-storey homes and bungalows to 38.4 and 36.7 per cent, respectively. The measure for condominium apartments remained unchanged at 25.1 per cent.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities in the fourth quarter of 2013 is as follows: Vancouver 81.6 (down 2.3 percentage points from the previous quarter); Toronto 55.6 (up 0.1 percentage points); Montreal 38.8 (unchanged); Ottawa 36.7 (down 0.4 percentage points); Calgary 33.8 (down 0.2 percentage points); Edmonton 33.3 (up 0.1 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 in Canada) at market value. Alternative housing types are also presented, including a standard two-storey home and a standard condominium apartment. The higher the reading, the more difficult it is to afford a home at market values. For example, an affordability reading of 50 per cent means that homeownership costs, including mortgage payments, utilities and property taxes, would take up 50 per cent of a typical household's monthly pre-tax income.

It is important to note that RBC's measure is designed to gauge ownership costs associated with buying a home at present market values. It is not a representation of the actual costs incurred by current owners, the vast majority of whom have bought in the past at significantly different values than those prevailing in the latest period.

Highlights from across Canada:

- **[British Columbia's housing affordability remains relatively poor despite some improvements](#)**

Affordability conditions improved across all housing categories in the province, with RBC measures falling between 1.0 and 1.4 percentage points in the fourth quarter. With levels at 73.2 per cent for two-storey homes, 67.7 per cent for bungalows and 33.7 per cent for condominium apartments, affordability remains poor, particularly in Vancouver.

- **[Alberta's homes become even more affordable](#)**

Owning a home at market value in Alberta became slightly more affordable for most housing categories in the final quarter of 2013 and continued to compare favourably against historical and national averages. RBC's measures fell by 0.5 percentage points for two-storey homes and by 0.2 percentage points for bungalows. The measure for condominiums edged higher by 0.1 percentage points.

- **[Saskatchewan's affordability trends sideways](#)**

Housing affordability in the province continued to play a predominantly neutral role in home-buying decisions with levels standing close to historical norms. RBC's affordability measures declined 1.1 percentage points for two-storey homes and 0.2 percentage points for bungalows. The measure for condominiums was up by 0.4 percentage points.

- **Manitoba's surge in listings lends a hand to affordability**

A surge in newly listed homes for sale weakened demand-supply conditions in Manitoba during the second half of 2013, which ultimately helped to improve affordability with RBC measures for two-storey homes and bungalows slipping by 1.1 percentage points and 0.6 percentage points, respectively. The measure for condominiums rose by 0.8 percentage points.

- **Quebec's affordability conditions little changed from the third quarter**

The only observable variation in affordability conditions in Quebec during the fourth quarter was in the two-story homes category, with RBC's measure inching higher by 0.2 percentage points. The measures for bungalows and condominium apartments remained unchanged. All measures continued to stand near their long-run averages.

- **Atlantic Canada retains decent affordability conditions**

Housing affordability in the region remained at generally neutral levels in the fourth quarter, and still compared favourably against the majority of markets across Canada. RBC's measures fell by 0.6 percentage points for two-storey homes and by 0.1 percentage points for bungalows. The measure for condominiums rose by 0.2 percentage points.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today, at rbc.com/economics/economic-reports/canadian-housing-forecast.html.

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