



ONTARIO'S DETERIORATING HOUSING AFFORDABILITY TRENDS CONTINUED IN Q1 2014: RBC ECONOMICS

TORONTO, May 27, 2014 — First quarter trends continued to paint a consistently eroding picture of Ontario's housing affordability, particularly for single-family homes, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

Home resales fell 7.5 per cent to a level that was more than 7.0 per cent below the 10-year average, mainly because of poor weather and a lack of listings. However, RBC says stretched affordability may have also contributed to easing market activity.

"Ontario's affordability measures continued to deteriorate in the first quarter with levels for both bungalows and two-storey homes at 24-year highs. And while barely rising in recent years, affordability for condominiums was not much below its multi-decade peak," said Craig Wright, senior vice-president and chief economist, RBC. "These challenging affordability trends make owning a home – and especially a detached home in major markets such as Toronto – a bigger stretch for most homebuyers in Ontario."

The RBC housing affordability measures, which capture the province's proportion of pre-tax household income needed to service the costs of owning a home at market values, modestly eroded in the first quarter of 2014 (an increase in the measure represents deterioration in affordability).

RBC's affordability measure for two-storey homes increased 0.4 percentage points to 51.0 per cent. RBC's measure for condominiums eased by 0.3 percentage points to 29.4 per cent, while the measure for bungalows stayed flat at 44.9 per cent.

"Ontario homebuyers will undoubtedly take little comfort in the fact that affordability eroded only minimally in the first quarter despite considerable price increases in some of the province's major markets," added Wright.

Lack of supply heats up Toronto housing market

News of bidding wars and rates of price increases exceeding 7.0 per cent certainly make a strong argument for the Toronto-area market heating up. RBC says, however, that Toronto's recent market heat stemmed primarily from a lack of homes available for sale.

“Home resales fell by 7.5 per cent in the first quarter, likely due to poor weather, and stood 7.3 per cent below the 10-year average,” said Wright. “However, it was the fact that new listings plummeted by 8.6 per cent cumulatively in the past two quarters that contributed most to fairly tight demand-supply conditions in the area.”

The associated strong price increases obviously had negative implications for housing affordability, RBC says. Toronto-area trends have deteriorated substantially in recent years, particularly for single-family home categories, and this trend continued in the first quarter.

RBC measures for two-storey homes increased by 1.3 percentage points to 65.3, bungalows rose by 0.2 percentage points to 56.1 per cent and condominiums slightly edged up by 0.1 percentage points to 34.2 per cent.

Ottawa’s housing market still lacklustre, but affordability not an issue

The RBC report says that despite some improvements in affordability, market activity in the Ottawa-area remained lacklustre for the first quarter of 2014. Home resales declined for the second-straight quarter by 3.3 per cent, reaching their lowest levels since mid-2010, and demand-supply conditions weakened further due to new listings edging higher by 0.9 per cent.

“A strong supply of homes for sale in Ottawa transferred more power to the buyers, which applied downward pressure on home prices and caused price increases to stall for the majority of housing types in Q1,” said Wright. “The upside to these developments has been that housing affordability improved in the market, remaining close to historical averages and continuing to suggest that there is little undue stress on homebuyers in the area.”

RBC’s measures fell by 0.5 percentage points for bungalows to 36.4 per cent, two-storey homes to 38.1 per cent and condo apartments to 24.7 per cent.

RBC’s housing affordability measure for the benchmark detached bungalow in Canada’s largest cities in the first quarter of 2014 is as follows: Vancouver 82.4 (up 0.9 percentage points from the previous quarter); Toronto 56.1 (up 0.2 percentage points); Montreal 38.9 (up 0.1 percentage points); Ottawa 36.4 (down 0.5 percentage points); Calgary 34.5 (up 0.9 percentage points); Edmonton 32.9 (down 0.2 percentage points).

The RBC Housing Affordability Measure, which has been compiled since 1985, is based on the calculated 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: single-family homes less affordable

- Housing affordability continues to be poor in British Columbia. RBC measures rose 1.2 percentage points for two-storey homes and 0.9 percentage points for bungalows to 74.2 per cent and 68.4 per cent, respectively. The measure for condos remained unchanged at 33.6 per cent.

Alberta: attractive housing affordability conditions

- The provincial housing market continues to be among the stronger in Canada, supported by a booming economy, rapidly rising population and attractive affordability. RBC's measures rose a slight 0.1 percentage points to 32.6 per cent for bungalows and 0.4 percentage points to 20.2 per cent for condominiums. The measure for two-storey homes was unchanged at 34.4 per cent.

Saskatchewan: affordability plays a neutral role

- Owning a home in Saskatchewan became slightly more affordable for the most part in Q1 2014. RBC's measures fell in two of the three categories – bungalows by 0.6 percentage points to 36.4 per cent and condominiums by 0.1 percentage points to 25.4 per cent. The rise in the measure for two-storey homes – 0.5 percentage points to 40.7 per cent – reversed a decline that took place in the previous quarter.

Manitoba: housing becomes more affordable

- Manitoba homebuyers benefited from some improvement in affordability in the first quarter of 2014. RBC measures for both bungalows and condominiums fell in the first quarter to their lowest levels in nearly a year – by 0.4 percentage points and 0.6 percentage points, respectively. Although the measure for two-storey homes rose by 0.3 percentage points, it stands at a lower level than last spring.

Quebec: housing affordability levels sit close to historical averages

- Housing affordability in the province did not erode much or at all in the first quarter and largely remain close to historical norms. RBC's measures edged higher by 0.2 percentage points for bungalows to 34.5 per cent and 0.1 percentage points for two-storey homes to 43.7 per cent. The measure for condominiums fell 0.1 percentage points to 26.6 per cent.

Atlantic: favourable affordability conditions do little to energize market

- The region's housing affordability conditions largely improved in the first quarter, but did little to pull the market out of its slump. RBC measures declined 0.4 percentage points to 31.2 per cent for bungalows and 0.4 percentage points to 25.9 per cent for condominiums. The measure for two-storey homes rose by 0.2 percentage points to 36.2, but remained below its long-term average.

The full RBC Housing Trends and Affordability report is [available](#) online as of 8 a.m. ET today.

For more information, please contact:

[Robert Hogue](#), Senior Economist, RBC Economics Research, 416-974-6192
[Elyse Lalonde](#), Communications, RBC Capital Markets, 416-842-5635