News

ONTARIO SAW SOME REPRIEVE FROM DETERIORATING HOUSING AFFORDABILITY TREND IN Q2: RBC ECONOMICS

TORONTO, August 28, 2014 — Ontario's housing affordability improved slightly in the second quarter of 2014, but not enough to reverse mild and ongoing deteriorating affordability trends, according to the latest Housing Trends and Affordability Report issued today by RBC Economics Research.

Ownership costs have come under mounting pressure in recent years, particularly in markets such as Toronto where property values are on the incline. The latest readings of RBC's measures continue to suggest that affordability may be moderately strained in the province, particularly in Toronto.

"Ontario's homebuyers don't appear to be overly concerned by affordability issues at present mainly because of lower mortgage rates – home resales picked up in the second quarter by 13 per cent relative to the first quarter," said Craig Wright, senior vice-president and chief economist, RBC. "This corroborates the argument that the deterioration in the first quarter was driven more by poor winter weather than any underlying weakness."

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, edged lower for all housing types in the second quarter (a decrease in the measure represents an improvement in affordability).

RBC's affordability measures eased by 0.2 percentage points to 44.7 per cent for bungalows, and by 0.1 percentage points for both two-storey homes and condominiums to 50.9 per cent and 29.3 per cent, respectively.

Toronto: a seller's market despite rise in listings

A 10.2 per cent increase in homes newly listed for sale between Q1 and Q2 was a welcome development in the Toronto market because demand had previously been stronger than supply. RBC says the surge in new listings helped resales reach their second-highest second quarter level on record, although it didn't achieve much greater balance between supply and demand in the market.

"Conditions in Toronto's housing market continue to favour sellers, and accordingly, sustain a strong bid on property values," added Wright. "Developments in the latest quarter did virtually nothing to stem the steady erosion in housing affordability we've seen in the market since 2009."

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RBC notes that Toronto was the only major market across Canada showing some deterioration in the second quarter indicating that affordability still appears to be strained, particularly for single-family home segments.

RBC's measure for condominiums edged higher by 0.1 percentage points to 34.3 per cent. The other measures stayed unchanged at 65.3 per cent for two-storey homes and eased by 0.2 percentage points to 55.9 per cent for bungalows.

Demand in Ottawa begins to pick up

Following two consecutive quarters of declining sales, the Ottawa-area market showed signs that demand was finally picking up, though overall market conditions remain quite weak in the area, says RBC.

"In the second quarter, the Ottawa area still saw plenty of properties available for sale relative to demand," said Wright. "In fact, new listings continued to outpace resales, causing the ratio of sales to new listings to fall to its lowest level since 1997, handing over increased pricing power to buyers. Accordingly, price advances have been limited at best this year."

RBC's measures edged lower for all housing types, moving down 0.6 percentage points to 24.1 per cent for condominiums, down 0.5 percentage points to 37.6 per cent for two-storey homes and down 0.4 percentage points to 36.0 per cent for bungalows. With measures standing close to their historical norms, affordability does not appear to be an obstacle to Ottawa-area homebuyers at this stage.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities in the second quarter of 2014 is as follows: Vancouver 81.8 (down 0.3 percentage points from the previous quarter); Toronto 55.9 (down 0.2 percentage points); Montreal 37.3 (down 1.6 percentage points); Ottawa 36.0 (down 0.4 percentage points); Calgary 33.6 (down 0.8 percentage points); Edmonton 31.7 (down 1.1 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: affordability broadly improves

- Housing affordability in the province improved across the board in the second quarter, with two-storey homes and condos reaching their most attractive levels since late 2009. RBC's affordability measures for B.C. fell between 0.9 and 2.0 percentage points. Still, owning a home at market price in an area such as Vancouver continued to be very difficult for an average household to afford.

Alberta: housing affordability remains attractive

- Escalating prices in the province were largely taken in stride by Alberta homebuyers in Q2 as lower mortgage rates and solid growth in household incomes provided offset. Affordability in the province improved modestly with RBC measures easing between 0.2 and 0.9 percentage points.

Saskatchewan: homebuyers face little undue affordability pressure

- The provincial housing market rebounded strongly in the second quarter with home resales jumping to a new record-high. At the same time, RBC's affordability measures for Saskatchewan fell between 1.3 and 0.8 percentage points, and stood close to their historical averages.

Manitoba: new home listings surge; affordability plays largely neutral role

- The big housing market story in Manitoba was a surge of homes being offered for sale with new listings growing to levels almost 14 per cent above where they were a year ago. RBC's affordability measures fell between 0.5 and 1.5 percentage points but remained close to long-run averages, suggesting that affordability likely plays a neutral role in home buying decisions in the province.

Quebec: improved affordability helps halt housing market slide

- Quebec's housing market activity, which had been falling since early 2012, stabilized in Q2. Home resales rose modestly and the supply of homes for sale grew. Second quarter affordability measures for the province eased for all housing types – between 0.9 and 1.8 percentage points. This improvement in affordability likely helped stabilize the market at the margin in the latest quarter.

Atlantic Canada: attractive affordability conditions

- The region's housing affordability conditions improved quite noticeably in the second quarter thanks to lower mortgage rates and subdued price pressures. RBC's measures for Atlantic Canada dropped between 0.9 and 1.8 percentage points.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today.

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