



ONTARIO'S HOUSING MARKET STILL SHOWS STRENGTH AS AFFORDABILITY SLIGHTLY IMPROVES IN Q3: RBC ECONOMICS

TORONTO, November 26, 2014 — Ontario's housing affordability improved slightly in the third quarter of 2014, according to the latest [Housing Trends and Affordability report](#) issued today by RBC Economics Research.

At the margin, homebuyers in the province benefited from modest improvements in affordability in the past two quarters – or past four quarters in the case of condo apartments. RBC says that a combination of lower utility costs and stronger incomes more than offset price gains in Q3 and ultimately contributed to modest improvements in affordability conditions in Ontario. Still, RBC's latest measures indicate that affordability continues to be moderately strained in the province, particularly in the Toronto area.

“Ontario's housing market activity perked up, with resales up by 4.6 per cent to reach the second-best third quarter ever in the province,” said Craig Wright, senior vice-president and chief economist, RBC. “This is a clear demonstration that low mortgage rates, generally positive economic conditions and sustained population growth in major urban centres throughout the province are contributing to homebuyer demand.”

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 third quarter (a decrease in the measure represents an improvement in affordability).

RBC's affordability measures eased by 0.4 percentage points to 50.5 per cent for two-storey homes, by 0.2 percentage points to 29.1 per cent for condominiums, and by 0.1 percentage points to 44.7 per cent for bungalows.

Toronto home ownership still a stretch but market keeps rolling

In the third quarter, Toronto area affordability saw some reprieve, though RBC says owning a home at market price, especially a single-detached home, is still a stretch for a typical household in the area. Despite improvements in two-storey home and condo measures, affordability still compares unfavourably to levels that prevailed a year ago and, more importantly, long-term averages for the area.

“Toronto area homebuyers do not seem to be bothered by any affordability related stress – we saw resales power ahead in Q3, posting their second-best third quarter ever,” said Wright.

RBC notes that activity may have even been stronger during the quarter if it were not for a small decline in new listings. The Toronto market remains tilted in favour of sellers, a condition that will likely sustain a solid pace of price increases in the near term, RBC says.

RBC's measures for the Toronto market fell by 1.1 percentage points to 64.2 per cent for two-storey homes and by 0.2 percentage points to 34.1 per cent for condominiums, while the measure for bungalows rose by 0.3 percentage points to 56.3 per cent.

Market recovery continues in Ottawa while supply still plentiful

The Ottawa market continued to recover in Q3 from the lows hit in early 2014 – home resales advanced by 2.9 per cent, which came on the heels of a substantial gain of 5.7 per cent in the second quarter. These back-to-back gains lifted the number of homes sold slightly above the 10-year average of 14,200 units to 14,500 units (annualized), which RBC says suggests that activity has returned to a normal level.

“The Ottawa-area market had tighter demand-supply conditions in Q3 which helped to curb the downward pressure on prices that built up over the last year,” said Wright.

RBC notes Ottawa's housing affordability has been on an improving trajectory since the mid-2013, and a further improvement was registered in the third quarter – RBC measures stood slightly below long-run averages, implying that housing affordability is not likely an obstacle to homebuyers at this stage.

RBC's measures fell modestly for all housing types, moving down 0.3 percentage points to 35.7 per cent for bungalows, down 0.2 percentage points to 23.9 per cent for condominiums and down 0.1 percentage points to 37.5 per cent for two-storey homes.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities in the third quarter of 2014 is as follows: Vancouver 83.6 (up 1.6 percentage points from the previous quarter); Toronto 56.3 (up 0.3 percentage points); Montreal 37.0 (down 0.3 percentage points); Ottawa 35.7 (down 0.3 percentage points); Calgary 34.2 (up 0.6 percentage points); Edmonton 31.9 (up 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: affordability under pressure

- Housing affordability in the province came under pressure in the third quarter, with RBC measures rising for all housing categories between 0.2 percentage points and 1.0 percentage points. Affordability continues to compare poorly against historical norms in the province and the measures elsewhere in the country, largely reflecting extreme conditions in Vancouver

Alberta: affordability remains relatively attractive

- As a share of household income, ownership costs are fairly low in Alberta – compared to both long-term and national averages. RBC's third quarter measures for the province climbed by 0.4 percentage points for both bungalows and two-storey homes. The measure for condos eased by 0.2 percentage point, and stands at the lowest level among the provinces.

Saskatchewan: prices decline and affordability improves

- Price declines in the province contributed to a significant improvement in affordability in Q3, especially for bungalows. RBC's measures fell 1.3 percentage points for bungalows (the largest decline in the country), and by 0.4 percentage points for both two-storey homes and condos.

Manitoba: housing largely becomes more affordable

- Affordability conditions largely improved in Q3 in the province, much as it has been the case since the middle of 2013. RBC's measures for bungalows and condos fell by 0.4 percentage points and 0.2 percentage points, respectively. The measure for two-storey homes rose by 0.2 percentage points.

Quebec: most attractive affordability levels in years

- Housing affordability continued to improve for the most part in the province, reaching the most attractive levels in years. In Q3, RBC's measures eased by 0.8 percentage points for condos and 0.4 percentage points for two-storey homes. The measure for bungalows remained unchanged.

Atlantic Canada: affordability conditions remain generally favourable

- Homebuyers in the region are benefitting from generally favourable affordability conditions. RBC's measure for bungalows eased by 0.3 percentage points and edged slightly higher by 0.1 percentage points and 0.2 percentage points for two-storey homes and condos, respectively. Measures for the region remain among the lowest in the country.

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