



SINGLE-DETACHED VERSUS CONDOS – ONTARIO’S HOUSING AFFORDABILITY REMAINS SPLIT IN Q1 2015: RBC ECONOMICS

Affordability for Toronto single-detached homes nearing risky levels

TORONTO, June 22, 2015 — Ontario’s housing affordability levels continue to be split by category with affordability for single-detached homes deteriorating and condominiums improving during the first quarter of 2015, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

RBC says owning a single-detached home at market price in Ontario has become increasingly less affordable over the past four years or so, whereas the weight of owning a condo has remained quite consistent.

“Ontario’s diverging trend reflects a shift in the mix of new construction toward multi-unit structures, with about half as many single-family homes being built compared to 10 years ago,” said Craig Wright, senior vice-president and chief economist, RBC. “The relative scarcity of single-family homes in the face of growing demand has fuelled stronger price increases compared to the solid supply and stable affordability levels in the condo market.”

RBC notes that after an uneven winter period, home resale activity was quite brisk in the spring, particularly in markets such as: Toronto, Hamilton, London, Windsor, and, to a lesser extent, Ottawa.

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, increased for two of the three housing categories tracked in Q1 2015 (a rise in the measure represents deterioration in affordability). RBC’s measures for bungalows and two-storey homes both rose by 0.3 percentage points to 45.5 per cent and 51.7 per cent, respectively. Condominiums edged lower by 0.2 percentage points to 28.9 per cent.

Affordability for single-detached homes in Toronto inching closer to risky levels

“Little by little, we’re seeing housing affordability levels for single-detached homes in Toronto deteriorating closer to the historically poor levels of 1990,” said Wright. “This signals that risks may be mounting – affordability levels in 1990 were associated with a housing bubble, and were followed by a steep and prolonged downward correction in prices during the first half of 90s.”

One key difference at this period in time, RBC notes, is that condo affordability remains largely in check, with measures barely deteriorating over the past five years. RBC says this means there remains more reasonably priced housing options in today's market, which was not the case in 1990. Condo prices are unlikely to escalate in the near-term given that a surge in new condo completions in the first few months of this year are bound to keep the resale market flush with available condo units.

In the first quarter of 2015, RBC's affordability measures for Toronto area bungalows and two-storey homes rose to their highest points in more than 24 years – by 0.6 percentage points to 57.3 per cent and by 1.5 percentage points to 67.0 per cent, respectively. Condominiums inched higher by just 0.2 percentage points to 34.0 per cent.

Plentiful supply helping to improve affordability in Ottawa

Owning a home at market price in Ottawa became slightly more affordable across all housing categories in the first quarter of 2015. RBC's measures fell by 0.6 percentage points for both bungalows and two-storey homes, to 35.4 per cent and 37.1 per cent, respectively, and by 0.3 percentage points to 23.7 per cent for condos.

“The improvement in the Ottawa area's housing affordability came amid stagnating home prices in the early months of 2015, as demand-supply conditions continued to weaken,” said Wright.

Home resales for condos and single-family homes fell in the first quarter while new listings increased dramatically. RBC notes that part of this rise in new listings reflected higher levels of condo completions in the past year, and many of these units remained unabsorbed in the first quarter. Despite a setback in resales this past winter, RBC says there are signs that positive demand momentum is building – home resales have run ahead of year-ago levels for three consecutive quarters, and more recent data suggests they will do so again in the second quarter of 2015.

“Ottawa's plentiful condo supply will likely continue to be a key factor weighing on prices in the near term,” added Wright.

During Q1 2015, affordability measures at the national level edged lower by 0.3 percentage points to 27.1 per cent for condominiums and 0.2 percentage points to 47.9 per cent for two-storey homes. The measure for detached bungalows was unchanged at 42.7 per cent.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities in Q1 2015 is as follows: Vancouver 85.6 (up 2.8 percentage points from Q4 2014); Toronto 57.3 (up 0.6 percentage points); Montreal 37.2 (down 0.2 percentage points); Ottawa 35.4 (down 0.6 percentage points); Calgary 32.8 (down 1.0 percentage points); Edmonton 32.8 (down 0.8 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 home ownership 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: Vancouver skews provincial affordability

- Q1 developments varied by housing categories, but still signaled greater-than-average pressure on affordability. RBC's measures eased 0.4 percentage points for condos and 0.1 percentage points for two-storey homes, and rose 1.0 percentage points for bungalows.

Alberta: plummeting oil prices contributed to improvement in affordability

- Housing affordability improved significantly across the province during the first quarter, with RBC measures falling across all categories (between 1.0 and 0.6 percentage points).

Saskatchewan: slower resale activity combined with moderating household income mutes impact on affordability

- Home resales plummeted more than 16 per cent in the province during Q1, contributing to price declines across housing segments. The impact on affordability was partly muted by a moderation in household income. RBC's measures fell 0.1 percentage points for condos, rose 0.3 percentage points for bungalows and remained unchanged for two-storey homes.

Manitoba: affordability stands close to long-run averages

- Affordability of single-detached homes and condos evolved in opposite directions in Q1. RBC's measures rose by 0.3 percentage points for both bungalows and two-storey homes, while the measure for condos fell noticeably by 1.1 percentage points.

Quebec: affordability at multi-year best levels

- After remaining steady for years, housing affordability improved in the province over the course of 2014 and the trend continued in Q1 2015. RBC's measures fell across all three categories tracked (between 0.3 and 0.1 percentage points).

Atlantic Canada: affordability still attractive and improving

- The lingering effect of earlier softness in home resale markets led to further improvement in housing affordability in the Atlantic region in Q1. RBC's affordability measures fell 0.7 percentage points for bungalows and 0.5 percentage points for two-storey homes. The measure for condos was unchanged.

The full RBC Housing Trends and Affordability report is available [online](#) as of 8:00 a.m. ET today.

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