



## **SINGLE-DETACHED HOME AFFORDABILITY INCREASINGLY STRAINED IN ONTARIO IN Q2 2015: RBC ECONOMICS**

**At today's prices, owning a single-detached home in Toronto is a "stretch" for most**

**TORONTO, August 31, 2015** — The affordability of owning a single-detached home in Ontario, particularly in Toronto, continued to deteriorate during the second quarter of 2015, both in absolute terms and relative to condo ownership, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research.

"Clearly, owning a single-detached home in Toronto at today's prices has become a stretch for most people," said Craig Wright, senior vice-president and chief economist, RBC. "The relative scarcity of the much coveted detached house in Toronto in the face of insatiable demand has fuelled stronger price increases compared to the well supplied condo segment, which still appears to be in reach for many buyers."

To a large extent, diverging affordability trends reflect the shift in the mix of new construction in the province toward multi-unit structures, with about half as many single-family homes being built compared to 10 years ago and booming condo construction filling the void, according to RBC.

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, rose across all three housing categories in the second quarter of 2015, though only slightly for condos (an increase in the measure represents a deterioration in affordability). The quarterly RBC report showed further affordability deterioration for bungalows (up 1.1 percentage points to 46.5 per cent) and two-storey homes (up 0.7 percentage points to 52.3 per cent). This contrasted with a fairly steady situation in the condo category (down 0.1 percentage points to 28.8 per cent). RBC's affordability measure for condos in Ontario in Q2 was up only slightly from its long-run average of 27.6 per cent.

### **Affordability moving closer to risky levels in Toronto**

The Toronto-area housing market's inexorable climb continued in the second quarter of 2015, with home re-sales nearly reaching a record level and prices appreciating at close to double-digit rates.

"Clearly, the Toronto housing market has many factors working in its favour, including low interest rates, a relatively strong labour market and steady population growth," Wright said. "That said, affordability, especially for single-detached homes, has the area's market moving closer to the frothy conditions we witnessed in 1990, just before the severe and prolonged downturn."

RBC's measures for Toronto rose by 2.1 percentage points for bungalows and by 0.7 percentage points for two-storey homes, to 59.4 per cent and to 67.5 per cent, respectively - both 24-year highs.

"It is worth noting that condo affordability in Toronto remains largely in-check," added Wright. "The trend in RBC's measure barely deteriorated over the past five years and remained unchanged at 33.8 per cent in Q2. This means that there are more reasonably priced housing options in today's market, which was not the case in the early '90s."

Condo prices are unlikely to escalate in the near term because a surge in new condo completions in the first few months of 2015 is bound to keep the resale market flush with available condo units, according to RBC.

### **Affordability remains stable in Ottawa**

There was little change in the state of housing affordability in the Ottawa area between the first and second quarters of 2015. In fact, unrestrained by any apparent lack of affordability, Ottawa homebuyers were quite active this past spring, boosting home re-sales by a healthy 6.3 per cent between Q1 and Q2.

RBC's measures for Ottawa stayed flat in the second quarter with both bungalows and two-storey homes at 35.4 per cent and 37.1 per cent, respectively. Only the measure for condos improved modestly as it declined by 0.5 percentage points to 23.4 per cent.

"This was Ottawa's strongest quarterly advance for re-sales in nearly four years," Wright said. "This helped tighten demand-supply conditions slightly, although the absorption of a plentiful supply of newly built condos remains a work in progress."

During Q2 2015, national affordability measures rose by 0.7 percentage points to 43.3 per cent for bungalows and by 0.4 percentage points to 48.3 per cent for two-storey homes. The measure for condominiums remained unchanged at 27.1 per cent.

RBC's Housing Affordability measure for the benchmark detached bungalow in Canada's largest cities in Q2 2015 is as follows: Vancouver 88.6 (up 3.0 percentage points from Q1 2015); Toronto 59.4 (up 2.1 percentage points); Montreal 36.0 (down 1.2 percentage points); Ottawa 35.4 (unchanged); Calgary 32.4 (down 0.4 percentage points); Edmonton 32.5 (down 0.4 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: Vancouver skews provincial affordability**

- Rapid home price increases in Vancouver significantly impacted housing affordability in British Columbia in the second quarter. RBC's measures for the province rose more than any other province, up 2.5 percentage points for two-storey homes, 2.1 percentage points for bungalows, and 0.4 percentage points for condominiums.

#### **Alberta: Market settling down with support from affordable conditions**

- Following the plunge in oil prices in the first quarter of 2015, Alberta's housing market settled down in the second quarter. RBC's measures for the province fell by 0.5 percentage points for two-storey homes, 0.1 percentage points for bungalows, and inched higher by 0.2 percentage points for condominiums.

#### **Saskatchewan: Signs of market recovery**

- Signs of recovery in the home resale market were apparent in the second quarter, although resale activity remained far below levels in 2014. RBC's measures increased by 0.8 percentage points for both bungalows and two-storey homes, while the measure for condominiums decreased by 0.2 percentage points.

#### **Manitoba: Affordability was a mixed bag**

- Owning a bungalow or condominium became less affordable in Q2, while owning a two-story home became more affordable. RBC's measures rose modestly for both bungalows and condominiums at 0.7 percentage points, while the measure for two-storey homes fell by 0.5 percentage points.

#### **Quebec: Improving affordability trends persist**

- Housing affordability continued to improve in Quebec in Q2. RBC's affordability measures fell in all three categories for the third consecutive quarter and by some of the largest margins across all the provinces. Two-storey homes fell by 1.1 percentage points, bungalows fell by 0.9 percentage points, and condominiums decreased by 0.5 percentage points.

#### **Atlantic Canada: Soft demand-supply conditions despite favourable affordability**

- Softness in the housing market drove homeownership costs down in Q2. RBC's affordability measures fell across all categories (between 0.3 and 0.7 percentage points), adding to the continuous decline registered since late 2013.

The full RBC Housing Trends and Affordability report is available online, as of 8:00 a.m. ET today, at [rbc.com/economics/market](http://rbc.com/economics/market).

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