



## HOUSING SLIGHTLY LESS AFFORDABLE IN ONTARIO: RBC ECONOMICS

### Toronto and Ottawa seeing continued home price increases

**TORONTO, August 22, 2011** — The cost of owning a home in Ontario increased in the second quarter of 2011, according to the latest Housing Trends and Affordability Report issued today by RBC Economics. Despite the fact that existing home sales eased, sellers continued to have the upper hand in many markets, including Toronto, which drove up prices in the province.

“The predominance of a sellers market in Ontario further contributed to a boost in home prices and ultimately eroded affordability in the province for the second quarter of this year,” said Robert Hogue, senior economist, RBC. “Still, the evidence mostly suggests that affordability is not being overly strained at this point in time.”

RBC’s housing affordability measures for Ontario, which capture the province’s proportion of pre-tax household income needed to service the costs of owning a home based on the going market value, moved up between 1.1 and 2.0 percentage points, depending on the housing type. The deterioration in Ontario’s affordability in the latest quarter further reversed some of the improvements late last year. Even so, RBC measures generally still stand close to their long-term averages.

The RBC measure for benchmark detached bungalows in Ontario increased 1.4 percentage points to 42.5 per cent, and the standard two-storey home rose 2.0 percentage points to 48.6 per cent, while the standard condominium increased 1.1 percentage points to 29.8 per cent.

“Our measure for two-storey homes is beginning to look somewhat elevated relative to its long-term average. Any further deterioration would likely weigh on homebuyer demand going forward,” added Hogue.

The RBC report notes that the Toronto-area housing market maintained a fairly brisk pace in the second quarter, albeit at a slightly slower pace than the opening months of the year.

“Tight supply conditions in the Toronto-area housing market set the stage for bidding wars and gave sellers the upper hand in price-setting,” said Hogue. “Despite this hit to affordability, levels are still far from extreme – a motivating factor for homebuyers.”

Toronto-area affordability measures increased for all housing types, most notably detached bungalows and standard two-storey homes (up 2.0 and 2.9 percentage points, respectively), while standard condominiums increased 1.2 percentage points to 34.2 per cent.

Home resales in Ottawa continued to decline in the second quarter, falling 4.2 per cent. Property values in the area have appreciated across all housing types, raising some concern that any additional deterioration in affordability will place Ottawa at greater risk of a further slow down in its housing market.

“Ottawa continues to push the limits of affordability, as the cost of owning a home increased for the third straight quarter in this area, restraining homebuyer demand,” noted Hogue. “Nevertheless, Ottawa still compares favourably against other major Canadian cities.”

RBC measures for the Ottawa area increased modestly in the second quarter by 0.7 percentage points for standard condominiums and rose by 1.3 and 1.2 percentage points respectively for detached bungalows and standard two-storey homes.

RBC’s housing affordability measure for a detached bungalow in Canada’s largest cities is as follows: Vancouver 92.5 per cent (up 10.4 percentage points from the previous quarter), Toronto 51.0 per cent (up 2.0 percentage points), Montreal 42.6 per cent (up 1.4 percentage points), Ottawa 41.2 per cent (up 1.3 percentage points), Calgary 37.1 (up 0.6 percentage points), and Edmonton 33.8 per cent (up 0.6 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. Alternative housing types are also presented, including a two-storey home and a standard condominium. The higher the reading, the more costly it is to afford a home at going market values. For example, an affordability reading of 50 per cent means that homeownership costs, including mortgage payments, utilities and property taxes, take up 50 per cent of a typical household’s monthly pre-tax income.

### Highlights from across Canada:

- **[British Columbia](#)**: Affordability in the province deteriorated as home values appreciated further in the second quarter. The primary contributor to this significant decline was hefty price gains for bungalows. Measures for B.C. rose between 1.0 and 5.7 percentage points in the quarter – the largest increases in the country.
  - Vancouver’s sky-high market valuations drove B.C.’s affordability measures to their worst levels on record at 92.5 per cent.
- **[Alberta](#)**: Housing affordability continues to be attractive in Alberta despite rises in measures – the lowest among provinces between 0.5 and 1.3 percentage points. Homebuyer demand has been stuck in low gear; existing home sales, new home construction and home prices continue to exhibit flat trends. Going forward, attractive affordability, robust growth and rising employment will act to shore up confidence in Alberta’s housing market.
  - Home resales in Calgary edged lower in the second quarter, providing little pressure on prices and affordability overall. The RBC affordability measures rose between 0.4 and 1.1 percentage points, representing the smallest deterioration among major cities. Strong economic fundamentals in both Calgary and Alberta will support homebuyer demand in the period ahead.

- **Saskatchewan:** Price increases for two-storey homes and bungalows weighed on Saskatchewan's housing affordability in the second quarter. RBC measures for these two categories rose the most in more than two years – by 2.8 percentage points and 2.0 percentage points, respectively. At this point, affordability levels have moved further above long-term averages for the province, potentially causing some strain for homebuyers.
- **Manitoba:** Housing affordability has continued along in the 'neutral zone' in Manitoba this quarter. RBC measures experienced a modest deterioration in the latest quarter – ranging from 0.7 to 1.2 percentage points. This rise in homeownership costs may have contributed to cooling in spring home resale activity, though major flooding in the province likely caused some disruptions in certain areas. Before spring, Manitoba's existing home sales registered the best first quarter ever, led by strong gains in Winnipeg.
- **Quebec:** Affordability has been a mixed bag in Quebec so far this year. The cost of owning freehold homes slipped for two successive quarters and the cost of owning a condominium apartment did not change materially. In the second quarter, RBC measures for bungalows and two-storey homes climbed 1.0 and 1.8 percentage points, respectively. The measure for condos barely rose (up only 0.2 percentage points). Divergent affordability patterns were reflected in home prices.
  - It has become increasingly more difficult to afford a home in the Montreal area. In the second quarter, the RBC measures rose for all housing types, indicating further deteriorating affordability. Over the past year, price increases led to Montreal losing its status as one of Canada's most affordable cities. This did not seem to concern homebuyers as they increased their purchases of homes for the second consecutive quarter.
- **Atlantic:** Rather flat market activity kept gains in property values in Atlantic Canada at bay, which limited the deterioration in housing affordability in the second quarter. RBC measures rose between 0.9 and 1.2 percentage points across the region. Atlantic Canada continues to have a long-standing affordability advantage relative to most other Canadian markets. The Atlantic Canada market was resilient during the 2008-2009 downturn and is well positioned to weather possible adversity going forward.
  - Several local markets in the region experienced a slowing in resale activity, including Halifax, St. John's and Saint John. Moncton, on the other hand, saw meaningful gains in the second quarter.

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

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