



Ontario home buyers benefit from a small improvement in affordability: RBC Economics

Activity in the Toronto and Ottawa markets cooled in the fourth quarter of 2012

TORONTO, February 25, 2013 — Ontario's previously hot housing market conditions continued to cool in the fourth quarter of 2012, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research. This transition contributed to some improvement in housing affordability in the province.

"The tightness that characterized Ontario's housing market earlier in the year gave way to more balanced conditions at the tail end of 2012," said Craig Wright, senior vice-president and chief economist, RBC. "This market transition set the stage for more affordable housing prices across the province during the second half of 2012."

RBC's 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 inched lower by 0.3 percentage points to 29 per cent for condominium apartments and by 0.1 percentage points to 42.9 for detached bungalows. The measure for two-storey homes, however, edged higher by 0.1 percentage points to 48.9 per cent, following a substantial decline in the third quarter.

Toronto-area housing market cooler and slightly more affordable

"Brisk demand in Toronto's housing market early last year put sellers firmly in charge, driving prices upward, though this strength waned as the year progressed. Demand cooled significantly during the spring, summer and early fall," added Wright. "This quick turn of events re-balanced market conditions and gave buyers more leverage to steer prices in their favour during the latter half of 2012."

RBC notes that the prolonged boom that Toronto experienced in the 2000s exerted some greater than usual stress on the market, which contributed to the recent cooling in activity.

Still, pressure eased in the latter half of last year thanks to a slight improvement in overall affordability. Fourth quarter affordability measures fell by 0.4 percentage points for both detached homes and condominium apartments to 52.8 per cent and 33.1 per cent, respectively. RBC's measure for two-storey homes inched higher by 0.3 percentage points to 62.2 per cent.

Ottawa-area affordability holds steady; market conditions erode

Housing market conditions in the Ottawa-area gradually eroded over the course of 2012. The combination of weaker demand and stronger supply of homes for sale fully slackened the tight market conditions that previously existed.

“Affordability levels in Ottawa were in a holding pattern for the bulk of 2012. Buyers had more power as market conditions loosened in the late stages of the year, which led to some reduction in ownership costs,” added Wright.

RBC’s measures for Ottawa fell in the fourth quarter for both detached bungalows (by 0.5 percentage points) and two-storey homes (by 0.4 percentage points); the measure for condominium apartments was unchanged. The report notes that these affordability levels still stand above their historical averages, suggesting that local homebuyers may be facing some greater than usual affordability-related strain.

RBC’s housing affordability measure for the benchmark detached bungalow in Canada’s largest cities is as follows: Vancouver 82.2 per cent (down 2.6 percentage points from the previous quarter); Toronto 52.8 per cent (down 0.4 percentage points); Montreal 39.3 per cent (down 0.9 percentage points); Ottawa 38.8 per cent (down 0.5 percentage points); Calgary 38.1 per cent (up 0.2 percentage points) and Edmonton 30.7 per cent (down 0.1 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.

Highlights from across Canada:

- [British Columbia](#): housing affordability improving, still has to go the distance

While housing affordability in British Columbia still has a long way to go before reaching less stressful levels, homebuyers in the province received a welcome reprieve in the fourth quarter. RBC measures fell by 1.1 percentage points for condominium apartments and 1.0 percentage point for detached bungalows. The two-storey home category experienced a small increase (0.4 percentage points), though this followed a substantial decline in the third quarter.

- [Alberta](#): vibrant market bolstered by attractive affordability

Brisk demand for the province’s housing in 2012 was supported by a strong provincial economy, accelerating population growth and attractive affordability. Further improvement was registered in the fourth quarter with measures falling between 0.1 and 0.2 percentage points.

- [Saskatchewan](#): affordability conditions buck the national trend

Tight market conditions at the beginning of 2012 had a lasting impact on home prices in Saskatchewan, which climbed at some of the faster paces in Canada in the fourth quarter. Rising property values caused affordability to deteriorate in the fourth quarter with measures increasing between 0.5 and 1.1 percentage points.

- [Manitoba](#): market vigour unhindered by slight affordability deterioration

Manitoba's housing market registered a banner year in 2012 with a record 14,000 existing homes sold, indicating that housing affordability levels had little dissuasive effect on homebuyers in 2012. Although measures for detached bungalows and condominiums deteriorated in the fourth quarter, measures for two-storey homes remained unchanged. RBC's measures for Manitoba continued to rank slightly above their long-term average, suggesting that any affordability strain is likely minimal at this point.

- [Quebec](#): generally improving affordability tone is sustained

Quebec's housing affordability improved, for the most part, for the third quarter in a row in the fourth quarter, yet this did little to stimulate homebuyer demand as resale activity continued to cool in the province. RBC measures fell for two-storey homes (by 1.1 percentage points) and detached bungalows (by 0.3 percentage points), but rose for condominium apartments (by 0.4 percentage points).

- [Atlantic Canada](#): housing continues to be affordable

Affordability in the Atlantic region received another boost in the fourth quarter, with RBC measures falling for two-storey homes (by 1.0 percentage points) and detached bungalows (by 0.5 percentage points), keeping levels well below their respective national averages. The measure for condominium apartments rose modestly by 0.3 percentage points, though this followed a more sizable drop in the previous period.

The full RBC Housing Trends and Affordability report is available online, as of 8 a.m. ET today, at rbc.com/economics/market/.

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