



HOUSING AFFORDABILITY IMPROVES IN ONTARIO: RBC ECONOMICS

Sellers' market prevails with high demand for houses

TORONTO, March 7, 2012 — Housing affordability improved marginally in Ontario in the fourth quarter of 2011. Still, provincial homebuyers faced slightly higher than average share of their income to cover the costs of owning a home at market price, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics Research. The report also noted that momentum in home resales advanced at a steady clip late last year and overall housing supply remained tight in the province.

“The modest improvement in affordability was a welcome reprieve for Ontario homebuyers, as it helped reverse some of the notable deterioration that gripped the province in the first half of last year,” commented Robert Hogue, senior economist, RBC. “Yet, there continues to be virtually no sign of strain in the Ontario market due to lack of affordability, and with supply remaining tight, sellers are still firmly in the driver’s seat.”

RBC’s housing affordability measures capture the province’s proportion of pre-tax household income that would be needed to service the costs of owning a home based on the going market value. In the fourth quarter, these measures improved across all housing types for Ontario, falling modestly between 0.2 and 0.3 percentage points (a decrease represents an improvement in affordability). The RBC measures were 42.5 per cent for the benchmark detached bungalow, 48.7 per cent for the standard two-storey home and 29.6r per cent for a condominium apartment.

Toronto-area affordability remains slightly strained

While registering some improvement over the past quarter, affordability in Toronto’s housing market continues to be slightly strained. RBC’s measure for standard two-storey homes in the Toronto area held reasonably steady at 61.3 per cent; the measure for standard detached bungalows rose slightly to 52.2 per cent. At the same time, the measure for standard condominiums eased half a percentage point to 33.9 per cent, all modestly above the historical norm.

“Relatively high prices did not seem to unnerve homebuyers as resale activity advanced at a brisk pace, even outstripping the availability of homes for sale. This activity is increasingly taking place in the more affordable condo segment, which now represents about one-quarter of the resale market,” Hogue added. “Conditions in the Toronto area still slightly favour sellers, which will make further improvements in affordability difficult in the near-term.”

Affordability in Ottawa was a mixed picture in the fourth quarter

In contrast to other major urban housing markets across the country, housing affordability in the Canada's capital city was mixed in the last quarter of 2011.

"Changes in our affordability measures ran the full gamut in the Ottawa area," said Hogue. "Meanwhile, home resales powered ahead and prices moved higher for all housing types, amid market conditions that tipped in favour of the seller. It remains to be seen whether such momentum can be maintained in the months ahead."

RBC measures for the Ottawa area edged lower by 0.1 percentage points to 40.9 per cent for standard detached bungalows, remained unchanged at 43.1 per cent for standard two-storey homes, and rose 0.3 percentage points to 28.5 per cent for standard condominiums.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities is as follows: Vancouver 86.0 per cent (down 4.6 percentage points from the previous quarter), Toronto 52.2 per cent (down 0.1 percentage points), Montreal 40.1 per cent (down 0.7 percentage points), Ottawa 40.9 per cent (down 0.1 percentage points), Calgary 36.7 per cent (down 0.7 percentage points) and Edmonton 32.8 per cent (down 0.3 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.

[Where housing affordability stands in Canada](#)

[British Columbia](#) - affordability improving but remains poor

B.C.'s housing market improved for the second consecutive quarter in the final months of 2011 due to a further reversal of earlier substantial increases in home prices, particularly in the Vancouver area, as well as income gains arising from steady job creation. Despite the fact that B.C. registered the most significant reduction in homeownership costs in the country, the provincial housing market remains the least affordable in Canada.

Measures fell between 0.7 and 2.5 percentage points. RBC expects poor affordability to weigh on local housing demand in the coming year.

- Increased risks in the Vancouver-area housing market modestly subsided in the fourth quarter – a notable improvement over spring 2011, when it recorded the worst levels of affordability ever witnessed in the annals of Canadian real estate. Vancouver home prices have moderated since the middle of 2011, and affordability measures fell quite substantially in the fourth quarter for all housing types (between 2.0 and 4.6 percentage points). Still, RBC notes that owning a home at current prices would take up the lion's share of a typical household budget, which will continue to be a deterrent for local buyers.

Alberta – affordable, yet buyers remain hesitant

Alberta's housing prices became more affordable in the final quarter of 2011, which helped to pull measures down to their lowest or second lowest points since 2005 (they fell between 0.5 and 0.7 percentage points). In spite of such attractive affordability, the pace of home resales noticeably slowed. Going forward, a strong labour market and affordable housing should shake off any hesitation that Alberta homebuyers may have.

- After showing an encouraging start in 2011, home resales in the Calgary area stayed mostly flat for the rest of the year and ended with a marginal decline in the fourth quarter. This lacklustre performance was surprising given the strength in Calgary's labour market (31,000 net new jobs were created in 2011) and the attractive affordability levels (measures fell for all housing categories between 0.2 and 0.7 percentage points). RBC expects strong market fundamentals will help the Calgary market turn a corner in the period ahead.

Saskatchewan – resales surge to the highest level in almost four years

Housing affordability improved across most types of housing in Saskatchewan in the fourth quarter of 2011, as RBC measures moved close their long-run averages. The province experienced a surge in home resales, which reached the highest level in almost four years. Affordability is unlikely to weigh on homebuyers at this point, particularly as strong economic growth is expected to continue spurring Saskatchewan's housing demand this coming year.

Manitoba – bucking the improving trend in affordability

Manitoba was the only province to experience a slight deterioration in affordability in the fourth quarter. Strong housing demand tightened market conditions and gave way to price increases, particularly for two-storey homes and condominiums. Market activity was especially brisk in Winnipeg in the closing months of 2011, where existing home sales reached record levels. Although housing has become slightly less affordable, RBC's housing measures for Manitoba remain close to long-run averages, which suggests little in the way of undue pressure being applied on the province's homebuyers.

[Quebec](#) – steady as she goes

Housing affordability in Quebec stood in the neutral zone, with RBC's fourth quarter measures for the province equaling, or coming very close to, their long-run averages. There was a broad-based improvement across all housing types; in particular, two-storey homes registered a substantial improvement that reversed the deterioration observed in the first half of 2011. With affordability firmly in neutral, balanced market conditions will keep the Quebec market reasonably stable in the coming months.

- The Montreal area continued to reverse the earlier deterioration in housing affordability and recorded some of the country's more substantial improvements for the second consecutive quarter, with RBC measures falling between 0.7 and 2.0 percentage points. Home resales in the area rose 6.9 per cent in the fourth quarter, despite weaker labour market conditions observed in the last half of 2011. These employment levels may yet exert pressure on housing demand and market conditions over the near term.

[Atlantic](#) - considerable pick up in resale activity

Echoing market conditions and developments at the end of 2010, Atlantic Canada closed 2011 on a positive note, with significant pick-up in resale activity and back-to-back affordability improvements. Resale strength in the fourth quarter was particularly remarkable in Halifax, which may be a reflection of a burst in optimism following the announcement of the \$25 billion federal government frigate order. St. John's also saw a surge in housing activity. While most markets within the region remain balanced, Halifax is closing in on becoming a sellers' market, and Saint John remains a buyers' market.

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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