



HOUSING AFFORDABILITY ERODES ACROSS ONTARIO: RBC ECONOMICS

Buyer demand pushes resale market higher

TORONTO, May 29, 2012 — Ontario homebuyers' interest showed no sign of abating as resale activity continued to climb despite an erosion in home affordability across the province during the first quarter of 2012, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics.

“The affordability situation in Ontario is somewhat tougher than it has been on average over the long-run, especially for single-family homes which have appreciated the most over the past year,” noted Robert Hogue, senior economist, RBC. “While this may cause some underlying stress in the market and place a slightly tighter squeeze on household budgets, demand for housing and resale activity across the province are showing no signs of easing at this point.”

RBC's housing affordability measures 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. In the first quarter of 2012, these measures increased across all housing types for Ontario, rising between 0.4 and 1.0 percentage points (an increase represents deterioration in affordability).

The RBC measures for standard two-storey homes moved 0.9 percentage points higher to 49.6 per cent, while condominium apartments edged higher by 0.4 percentage points to 30.0 per cent. The benchmark detached bungalow increased by 1.0 percentage points to 43.5 per cent, driven by price gains that exceeded 3.0 per cent quarter-over-quarter.

RBC expects further challenges on the housing affordability front across Canada once the Bank of Canada begins raising interest rates in the fourth quarter of this year, assuming the European situation remains on the rails.

“Exceptionally low interest rates have been the key force in keeping affordability from hitting dangerous levels in Canada in recent years,” said Craig Wright, senior vice-president and chief economist, RBC. “Affordability headwinds are likely to increase next year, as interest rates make their way toward more normal levels, although the gradual pace at which we anticipate the central bank to proceed will lessen any negative impact on the housing market.”

Toronto-area housing market firing on all cylinders

Affordability eroded in the Toronto-area housing market during the first quarter as home resales increased to their highest levels in two years and year-to-date monthly figures stood 14 per cent above the 10-year average.

RBC's measure for standard two-storey homes in the Toronto area jumped 1.3 percentage points to 62.6 per cent and the measure for standard detached bungalows rose 1.2 percentage points to 53.4 per cent. Meanwhile, the measure for standard condominiums inched up half a percentage point to 34.4 per cent.

"The seller remains king in the Toronto-area housing market with brisk buyer demand outstripping the availability of homes for sale," Hogue commented. "That said, if affordability continues to deteriorate over the next year, we expect this will have a cooling effect on the lively resale market and restrain homebuyers to a certain degree. The recent surge in housing starts will also eventually help address tight supply, but home prices are likely to remain firm in the meantime."

Ottawa homebuyers start to hesitate

In keeping with the general trend across the province, housing affordability in the Canada's capital city eroded in the first few months of 2012, with RBC's measures rising between 0.4 and 0.9 percentage points. These increases lifted the levels further above the area's long-term averages, which may be signaling that homebuyers feel somewhat stretched in the face of current market valuations.

"Ottawa-area homebuyers were a bit more hesitant to close deals in the early part of this year despite greater availability of homes for sale, which may be a result of the deterioration in affordability that carried over from late 2011," said Hogue. "Nonetheless, affordability there remains far from extreme by national standards and we don't expect to see the kind of pressure that could destabilize the market in the period ahead."

RBC measures for the Ottawa area edged higher by 0.9 percentage points to 41.8 per cent for standard detached bungalows, rose 0.7 percentage points to 43.8 per cent for standard two-storey homes, and increased 0.4 percentage points to 28.9 per cent for standard condominiums.

RBC's housing affordability measure for the benchmark detached bungalow in Canada's largest cities is as follows: Vancouver 88.9 per cent (up 3.1 percentage points from the previous quarter), Toronto 53.4 per cent (up 1.2 percentage points), Ottawa 41.8 per cent (up 0.9 percentage points), Montreal 41.4 per cent (up 1.2 percentage points), Calgary 36.7 per cent (unchanged) and Edmonton 32.4 per cent (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.

Where housing affordability stands in Canada

- [British Columbia](#): poor affordability weighing on demand
After recording marginal improvements in the latter half of 2011, affordability in B.C. remained poor in the first quarter. Measures for the three housing types tracked by RBC moved in different directions in the latest period, primarily reflecting the pace of home price increases for each housing type. This poor affordability is likely weighing on buyer demand and a key factor behind the downward trend in home resales since last fall. RBC expects this pressure to persist going forward.
 - Following two consecutive quarters of declines, home prices rebounded across all housing types in the Vancouver area in the first quarter of 2012, making it even more difficult for a typical household to own a home in the area. RBC measures rose between 0.3 and 3.1 percentage points, raising doubts that significant affordability improvements will surface anytime soon.
- [Alberta](#): attractive affordability spurs housing market activity
Alberta's housing affordability levels remained attractive in the first quarter of 2012, with RBC's measures for the province standing among the lowest, if not the lowest, across the country. A strong provincial economy and relatively affordable housing pushed home resale activity up 11.5 per cent year-over-year. As Alberta continues to lead the country in economic growth this year, RBC expects brisk housing activity to persevere.
 - The long-awaited resurgence of Calgary's housing market appears to have launched in recent months. Home resales were up a notable 7.4 per cent in the first quarter, compared to the fourth quarter of 2011. Still, home prices have remained flat, for the most part, keeping housing affordability in check, with some of the best levels among Canada's largest cities. RBC expects the home resale market resurgence to continue through the remainder of the year.
- [Saskatchewan](#): affordability improves, resales surge to record high
Saskatchewan was the only province to show across-the-board improvement in housing affordability in the first quarter of 2012. Minor price increases – or even declines in the case of two-story homes – in the first three months of the year helped lower the cost of owning a home for all housing categories in the province. Measures fell between 0.2 and 2.0 percentage points, bringing affordability levels even closer to long-term averages and implying that any undue stress on homebuyers is dissipating. Looking ahead, rapid provincial economic growth will continue to support Saskatchewan's housing market.
- [Manitoba](#): affordability not an obstacle for homebuyers
In the first quarter, there was little change to Manitoba's affordability picture, with RBC measures moving only slightly. In fact, Manitoba's housing market is one of the more affordable in the country. The share of household income needed to cover the costs of owning a home at market value was generally in line with

historical norms and continued to be a reasonably neutral financial burden for homebuyers. So far this year, resales have been quite volatile, registering a decline in the first quarter. RBC expects this will be a temporary pullback and that resales will continue to make gains this year.

- [Quebec](#): last year's improvements reverse
Much of the affordability improvement in the second half of last year was rolled back in the early months of 2012. Quebec saw the strongest increases in single family home prices in Canada, causing a notable deterioration in affordability for both detached bungalows and two-storey homes. Despite this deterioration, affordability remains within range of historical norms and does not appear to be exerting too much pressure on homebuyers at this point.
 - Following rapid acceleration through the summer and fall of last year, home resale activity stabilized in the Montreal area in the early months of this year. In contrast, home prices made noticeable gains recently, reversing declines in previous periods. With the exception of two-storey homes, which appear to be pushing the affordability envelope, owning a home in the Montreal area is not currently an excessive financial burden for homebuyers.
- [Atlantic](#): affordability remains positive
Atlantic Canada's housing affordability levels remained in neutral for the most part in the first quarter, following back-to-back improvements in the latter half of last year. The share of household budget needed to cover the costs of owning a home at market values remained in line with long-term averages and compared favourably with other provinces. Homebuyers were quite engaged in the region, as home resales picked up further in the first quarter and activity in Halifax continued to be brisk. Still, RBC notes that home price appreciation in Atlantic Canada remained subdued for the most part.

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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