



HOUSING AFFORDABILITY IN ONTARIO DECLINED FOR SECOND CONSECUTIVE QUARTER: RBC ECONOMICS

Single family homes consume greater share of household income

TORONTO, August 27, 2012 — Owning a home at market prices in Ontario took up a larger share of household income in the second quarter of 2012, according to the latest [Housing Trends and Affordability Report](#) issued today by RBC Economics. This is the second consecutive quarter during which most regions of Canada, including Ontario, have seen housing affordability deteriorate.

“Since 2009, Ontario’s prospective homebuyers have been facing a modest upward trend in the share of income needed to cover homeownership costs. This strain is impacting single family homes in particular, where the costs of carrying a home have been hampered by strong appreciation in property values in Canada over the past year,” said Robert Hogue, senior economist, RBC. “More recently, resale activity in the housing market has started to moderate in the province, with home prices easing somewhat on a month-to-month basis, although this is still uneven across local markets at this stage.”

RBC’s housing affordability measures capture Ontario’s proportion of pre-tax household income needed to service the costs of owning a home at the going market value. These measures modestly exceeded their long-term average for all housing categories in the province during the second quarter of 2012 (an increase represents deterioration in affordability).

The RBC measures for a standard two-storey home moved upward by 0.8 percentage points to 50.5 per cent, while the benchmark detached bungalow increased slightly by 0.3 percentage points to reach 43.9 per cent. Measures for standard condominium apartments increased the least, rising by 0.1 percentage points to 30.2 per cent.

Market heat dissipating in Toronto area

Toronto area home prices continued to rise in the second quarter, notably in the single family home category, further eroding housing affordability in the area. RBC’s measure for standard two-storey homes in the Toronto area increased 1.1 percentage points to 63.9 per cent and the measure for standard detached bungalows rose 0.9 percentage points to 54.5 per cent. Meanwhile, the measure for standard condominiums inched up by 0.3 percentage points to 34.8 per cent. All measures were above their long-run average.

“After showing signs of serious heat this winter and early spring, home resale activity in the Toronto area market cooled down by several degrees more recently,” Hogue commented. “At the same time, there has been an increase in the number of homes newly listed for sale, easing the market tightness that gave sellers the upper hand in the setting prices during much of the past two years.”

While still far below the clearly excessive levels reached in 1990, above-average affordability measures are expected to restrain homebuyer demand in the Toronto area in the period ahead.

Affordability in Ottawa holding steady

Canada’s capital saw no change in housing affordability in the most recent period – there was no movement in any of the housing categories tracked by RBC in the second quarter of 2012. Increases in income fully offset increases in mortgage payments, while changes in the cost of utilities and property taxes were negligible. Still, RBC measures for the Ottawa-area market continue to stand not only above their long run average, but also near historic peaks in the area. These peaks are relatively low in comparison to other major Canadian cities.

“Ottawa area homebuyers may be feeling greater-than-usual strain with respect to affordability. Interestingly, this has had little adverse effect on the market, which just registered its third-best second quarter ever for home resales,” noted Hogue. “Nonetheless, recent momentum has shifted downward from the brisk pace we saw last year and month-to-month volatility has increased. These may be early signs that homebuyers are becoming increasingly stretched.”

RBC measures for the Ottawa area remained unchanged at 44.0 per cent for standard two-storey homes, 41.9 per cent for standard detached bungalows and 29.0 per cent for standard condominiums.

[Where housing affordability stands in Canada](#)

RBC’s housing affordability measure for the benchmark detached bungalow in Canada’s largest cities is as follows: Vancouver 91.0 per cent (up 2.2 percentage points from the previous quarter), Toronto 54.5 per cent (up 0.9 percentage points), Ottawa 41.9 per cent (unchanged), Montreal 40.4 per cent (down 1.0 percentage points), Calgary 36.7 per cent (unchanged) and Edmonton 32.4 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. The higher the reading, the more costly it is to afford a home based on 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 situation less severe outside Vancouver

Owning a home at market prices stretched the budgets of B.C.'s households even more in the second quarter of 2012. Affordability remains poor in the province, with RBC measures rising between 0.2 and 1.2 percentage points, although this largely reflects the extremely unaffordable conditions in the Vancouver-area market. The situation is much less severe elsewhere in the province.

- The Vancouver-area continues to be the least affordable market in Canada by a considerable margin. RBC's measures deteriorated further for all types of housing in the area, standing close to the worst levels on record.

[Alberta](#): Lower utility costs help affordability

Markets in Alberta defied the national trend in the second quarter, experiencing widespread improvements in affordability, thanks to significant drops in the prices for electricity and natural gas. RBC measures eased between 0.3 and 0.6 percentage points, to levels well below their long-run averages.

- Calgary's housing market enjoyed stronger home resales and building activity, as well as moderately rising prices, and continues to register one of the most attractive affordability levels among Canada's largest cities.

[Saskatchewan](#): Strong price increases dent affordability

Brisk housing activity over the past year has considerably tightened market conditions and applied upward pressure on home prices in the province, leading to some of the bigger deteriorations in affordability across Canada in the second quarter. The RBC measure for two-storey homes surged by 2.8 percentage points, while measures for condominium apartments and detached bungalows climbed 1.6 and 1.4 percentage points respectively.

Manitoba: Homeownership costs remain manageable despite slip in affordability. Strong activity in Manitoba's housing market in the second quarter led to a notable erosion in affordability. Still, households face some of the lowest ownership costs as a share of their income in Canada. RBC measures rose between 0.4 and 1.9 percentage points in the province, to stand slightly above their historical average.

Quebec: Affordability trending sideways

Affordability measures in the province trended sideways in the second quarter, moving in the opposite direction of changes registered in the previous period. Following widespread increases earlier this year, RBC measures declined for detached bungalows (0.7 percentage points) and condominium apartments (0.5 percentage points), while the measure for two-storey homes edged higher by 0.2 percentage points for the second consecutive quarter.

- In Montreal, the RBC measures remain roughly in line with historic norms for most housing categories. However, the measure for the two-storey homes segment remained notably above its long-term average, indicating that greater-than-usual tensions will likely persist.

Atlantic Canada: Long-standing favourable affordability position maintained

Moderate affordability deterioration in the Atlantic region continued in the second quarter, with RBC measures rising between 0.3 and 0.7 percentage points, within close range of their long-run averages.

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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