

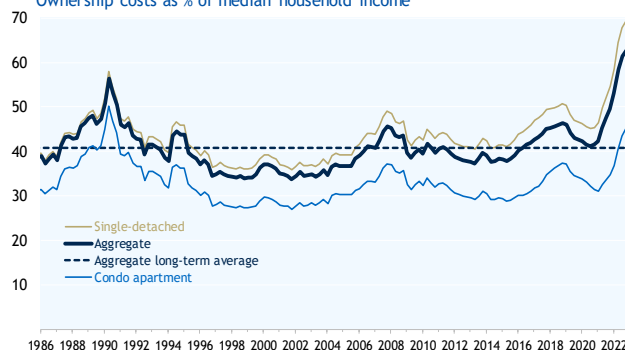
## HOUSING TRENDS AND AFFORDABILITY

March 2023

### Brighter days ahead as home ownership costs go through the roof

- Owning a home got even more expensive:** Rising interest rates further inflated home ownership costs in the fourth quarter of 2022, despite a generalized dip in property values. RBC's aggregate affordability measure for Canada rose for a ninth-straight quarter to 62.8%, its worst-ever level. The situation deteriorated in all markets we track. Buyers in BC and Ontario are especially challenged.
- But the pace of deterioration is slowing significantly:** The increase in RBC's aggregate measure in the fourth quarter (1.4 percentage points) was the smallest in almost two years, as lower prices have started to take some of the pressure off.
- Price drop, stable rates set the stage for relief—soon:** The fourth quarter may prove to be the low point for ownership affordability. Further widespread price declines—particularly in Ontario and BC—should help lower ownership costs as interest rates stabilize. We expect affordability trends to improve noticeably this year—albeit only partially. Our call for a 15% peak-to-trough decline in the national RPS benchmark price would only partly reverse the more than 40% surge in the first two years of the pandemic.

**RBC Housing Affordability Measures - Canada**  
Ownership costs as % of median household income



### The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
62.8	98.1	43.2	32.3	85.9	52.7	54.0

Fourth quarter 2022

#### Rising interest rates' toll on affordability greater than relief from lower home prices

Contribution to quarterly changes in RBC's aggregate affordability measure for Canada, in percentage points



Source: RPS, Royal LePage, Statistics Canada, Bank of Canada, RBC Economics

#### Self-correction mechanism in motion

Interest rate hikes continued to dominate the housing market landscape in the latter stages of 2022, driving up ownership costs to record-high levels. They alone added 3.7 percentage points to RBC's aggregate affordability measure in the fourth quarter. But the good news is the dramatic loss of affordability since mid-2021 has set off self-correcting forces that will soon turn the situation around.

Specifically, the considerably harsher buying conditions have depressed home resale activity and sent prices on a downward trajectory. Lower property values have already had a

beneficial impact on affordability in the past two quarters. So far, that impact has been insufficient to offset the toll caused by higher rates (price drops took 2.4 percentage points off RBC's aggregate measure in the fourth quarter, or just two-thirds of what high rates



added). But with the Bank of Canada likely done with its rate hike campaign, we expect any further price drops to a more tangible difference for buyers. Our base case scenario has a material overall improvement taking place in 2023.

A full reversal of the massive deterioration since 2021 is poised to be a long process, though. Lower interest rates and steady solid income growth will be needed to move the needle in a meaningful way.

### Very challenging environment for buyers at this stage

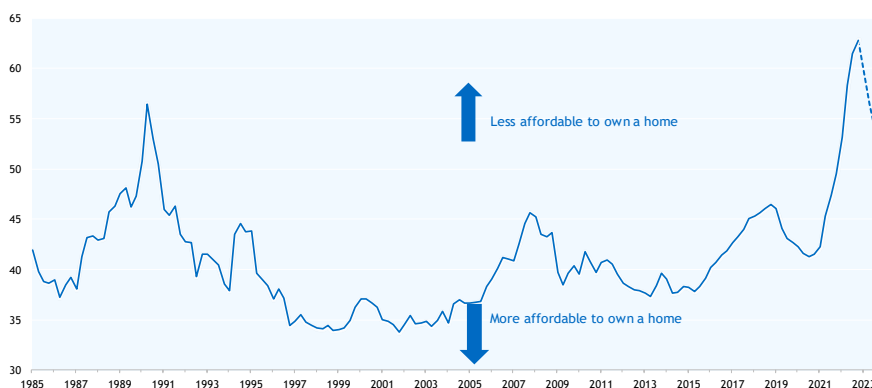
For now, buyers continue to face a very challenging environment in most of Canada. Affordability is at its worst-ever level in Victoria, Vancouver, Toronto, Ottawa, Montreal and Halifax in the fourth quarter where RBC's aggregate measures reached all-time highs in the fourth quarter. (An increase in the measure represents a loss of affordability.) Ownership costs are also heavier than usual in virtually every other market except possibly Edmonton. The situation deteriorated across the board once again in the fourth quarter with RBC's measures increasing the most in Saint John, Vancouver, Victoria and Montreal. The national aggregate measure is now up an astounding 21.5 basis points since late-2021.

### Housing market close to a cyclical bottom

The year-long market downturn has moderated significantly since the fall as activity has reached deeply depressed levels, leaving little downside left. Home resales have never been so low since the 2008-09 global financial crisis (excluding the lockdown period). We see a bottom forming this spring. Some markets might be ahead of the pack (e.g. in Ontario and possibly Atlantic Canada), while others (e.g. in the Prairies and Quebec) might lag somewhat. Prices will level out a few months later—provided the Bank of Canada indeed keeps its fingers off the trigger (as we expect). Our latest [Canadian housing market outlook](#) report outlines our views on what's ahead for the market.

#### Housing affordability poised to improve in 2023

Ownership costs as % of household income, Canada, composite of all housing categories



Source: RPS, Statistics Canada, Bank of Canada, RBC Economics



## British Columbia

### Victoria – Buyers on edge—still

Soaring interest rates put many would-be buyers on edge over the past year. The situation got even more challenging in the fourth quarter as spiking ownership costs pushed RBC's aggregate affordability measure further into record territory (74.2%). The measure has now surged an astounding 23 percentage points since the middle of 2021. It's unsurprising, then, that activity has slumped, reaching 10-year lows since the fall (excluding the pandemic lockdown). Demand-supply conditions have significantly loosened as a result and prices are now correcting. We expect further price declines in the near term.

### Vancouver area – Unaffordability off the charts

Owning a home has never been so unaffordable anywhere in Canada. RBC's measure (98.1%) far exceeds everything we've recorded over the past four decades. The only encouraging sign: the measure deteriorated less in the fourth quarter, rising 2.8 percentage points or close to half the rate in the previous four quarters. That's mainly thanks to the ongoing price correction. But it will take further declines to make a meaningful difference and reignite the ownership dream of many buyers who have been shut out of the market. Home resales recently touched four-year lows. We expect activity to stay depressed while earlier price gains are partly rolled back.

## Alberta

### Calgary – Challenged but holding up well

The broader challenging trends have also impacted the Calgary market though the affordability situation still isn't as dire as in some other major markets. Despite rising materially in the past year, RBC's aggregate measure (43.2%) exceeds its long-term average (38.8%) only moderately—suggesting ownership costs aren't yet overwhelming buyers. That's likely the reason why market activity has remained relatively brisk to date, still running above pre-pandemic levels. Prices have stayed firm as well with any declines minimal. We see this continuing in the near term.

### Edmonton – Standing out

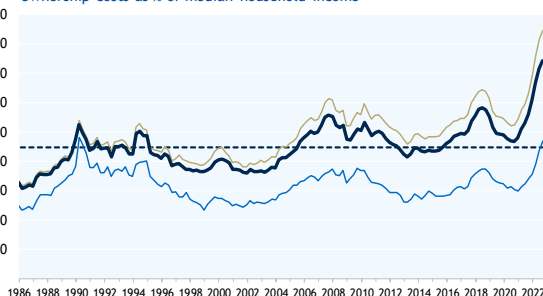
Edmonton stands out as the only market we track where RBC's affordability measure (32.3%) is below its long-run average (32.6%). While the relatively positive picture hasn't protected against the broad market cooling, it likely helped home resales stay 18% above pre-pandemic levels. A string of price declines since summer, if sustained, could lead to some improvement in affordability in the period ahead.

## RBC Housing Affordability Measures

— Single-detached      — Aggregate  
 ..... Aggregate long-term average      — Condo apartment

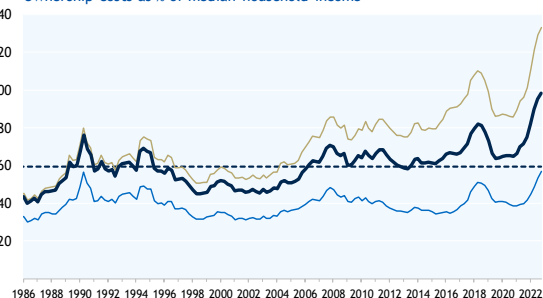
### Victoria

Ownership costs as % of median household income



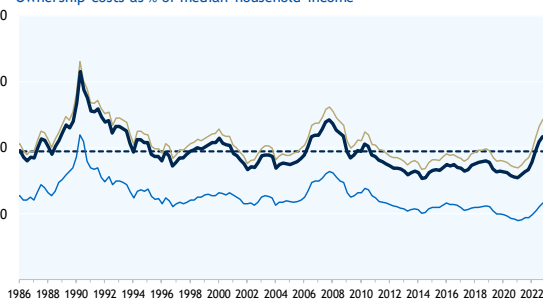
### Vancouver Area

Ownership costs as % of median household income



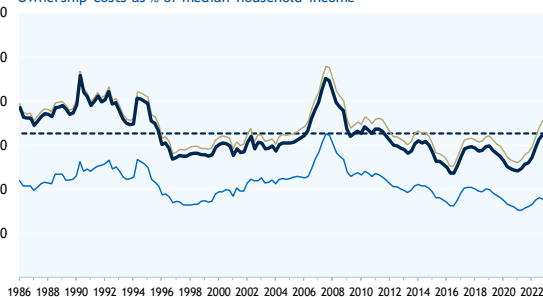
### Calgary

Ownership costs as % of median household income



### Edmonton

Ownership costs as % of median household income



Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics



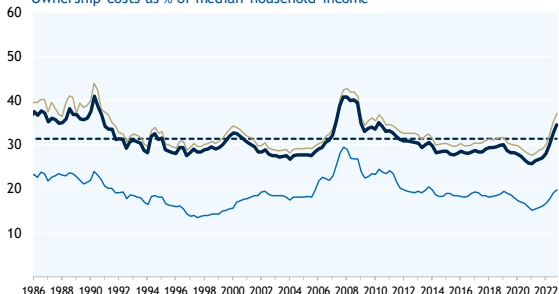
## RBC Housing Affordability Measures

### Saskatchewan

— Single-detached      — Aggregate  
 ..... Aggregate long-term average      — Condo apartment

#### Saskatoon

Ownership costs as % of median household income



#### Saskatoon – Still robust despite rising ownership costs

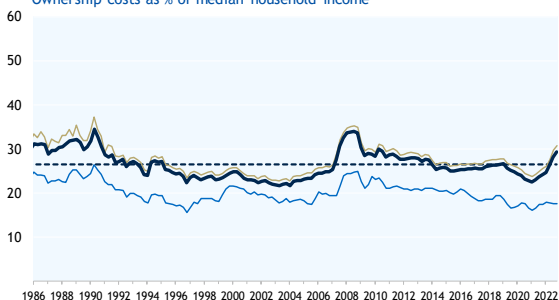
RBC's aggregate measure rose in each of the last seven quarters to 34.5%. This erosion in affordability has taken a toll on buyers and slowed down activity in the area. But with sky-high levels as a starting point, the market isn't weak by any measure—resales remain far above where they were before the pandemic. Prices have generally held up better than in most markets. We've seen some depreciation in property values of late, which could ultimately help improve affordability down the road.

#### Regina – Funk may be short-lived

The loss of affordability in the past year is now weighing on buyers. Home resales have dipped since the fall after hovering near record levels in the prior two years. Still, the downturn to date pales in comparison to what the majority of markets in Canada are experiencing. And it may soon stabilize. Recent price declines herald better days ahead for buyers. Already the best among the markets we track in Western Canada, RBC's aggregate measure for Regina (29.2%) could start to get better again in period ahead.

#### Regina

Ownership costs as % of median household income



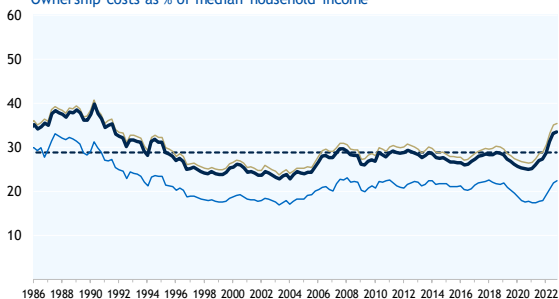
### Manitoba

#### Winnipeg – Better affordability likely around the corner

The market's pace has cooled considerably in the past half-year with resales slumping to a decade low early in 2023. Soaring interest rates are largely to blame. They, along with earlier price gains, have significantly jacked up ownership costs, putting Winnipeg buyers in their tightest squeeze in decades. RBC's aggregate measure rose for an eighth-straight time to 33.5%—a 33-year high—in the fourth quarter. The latest increase was tiny (at 0.3 percentage points), though, which hints that some improvement may be around the corner. With prices continuing to decline for now, we expect just that.

#### Winnipeg

Ownership costs as % of median household income



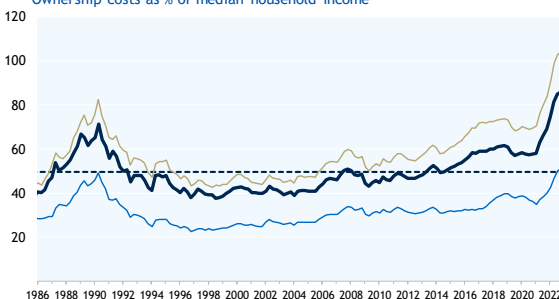
### Ontario

#### Toronto area – Massive challenges persist

The market is in the midst of a full-blown affordability crisis. Average buyers would need to spend a record 85.9% of their income to carry the costs of owning a typical home (valued at \$1.2 million in the fourth quarter). Even settling for a condo apartment—usually the cheapest option—would set buyers back a mind-boggling 51.3%. This puts ownership out of reach for many at a time when rent is also skyrocketing. Price declines in the past year have yet to bring relief because rising interest rates more than offset their beneficial impact. This may change in the period ahead as the Bank of Canada pauses. Resale activity appears to be stabilizing (at depressed levels), which we think signals the cyclical bottom is near.

#### Toronto Area

Ownership costs as % of median household income



Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics



**Ottawa – Buyers on the defensive**

Ottawa has lost its favourable affordability position. Surging ownership costs over the last two years now weigh heavily on buyers. They would take up 52.7% of a typical household’s income—an all-time high in this market, and ranking fifth highest among the markets we track. With buyers clearly on the defensive, resale activity has plummeted to a 14 year-low range since summer (excluding the pandemic lockdown). Property values have moderated but not enough so far to make a meaningful difference. We expect some improvement in the period ahead with declining prices taking the edge off ownership costs as rates plateau.

**Quebec**

**Montreal area – Peak unaffordability pressure**

The pressure has never been more intense for Montreal buyers. Following a rapid escalation since the middle of 2021, RBC’s aggregate measure now stands near its highest level ever (54.0%), effectively matching the previous historical peak set in 1990. The very high bar to ownership has unsurprisingly deflated buyers. The slowdown in market activity began gradually but the pace of decline picked up materially since summer. Home resales have lately slumped to 14-year lows. Because inventories are still relatively tight and demand-supply conditions largely balanced, the drop in property values has been relatively contained to date. We think this trend will persist in the near term.

**Quebec City – Ownership dreams still alive**

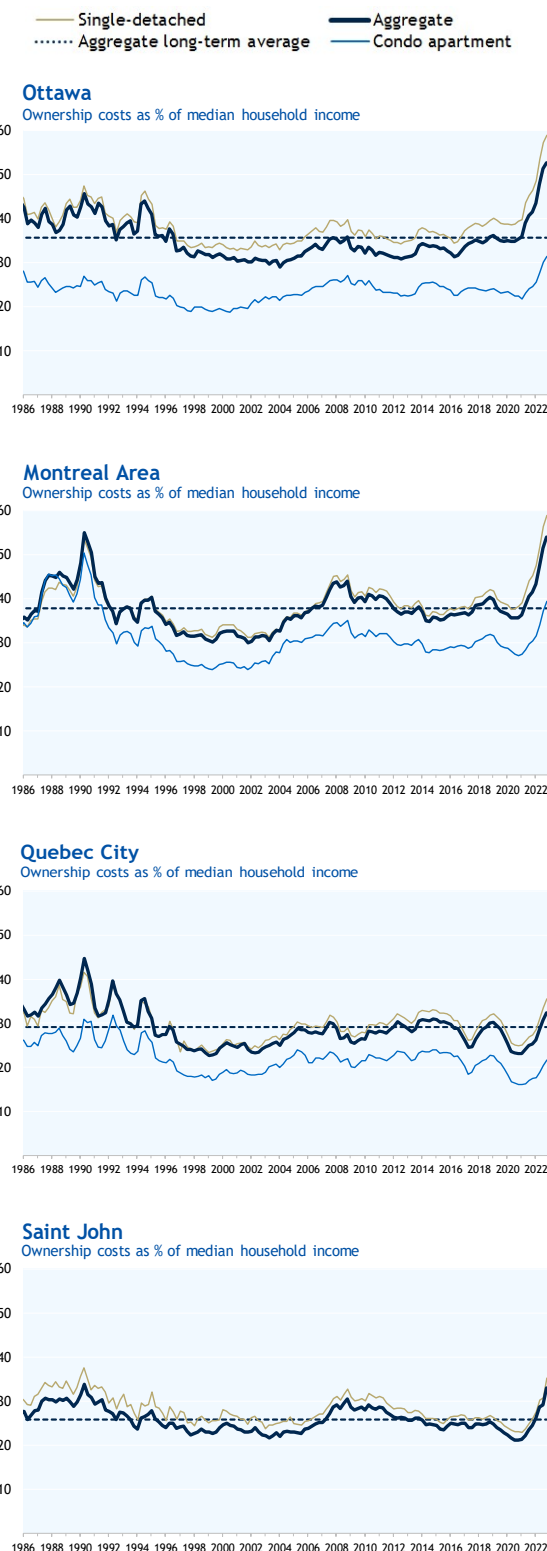
Owning a home has become more expensive but still within reach of average Quebec City-area buyers. RBC’s aggregate measure (32.4%) just modestly exceeds its long-run average (29.1%) and remains close to half the Canadian average (62.8%). Still, the sizable deterioration over the past year has led many buyers to withdraw, cooling activity by several degrees and curbing price appreciation.

**Atlantic Canada**

**Saint John – Not immune to the general cooling trend**

After showing resilience at first, the Saint John market has succumbed to the general cooling brought about by higher interest rates. Home resales recently fell to a five-year low (excluding the pandemic lockdown). Local buyers have seen their capacity to carry ownership costs diminish considerably over the past year and a half. RBC’s aggregate measure shot up nearly 11 percentage points since mid-2021 to 32.9% in the fourth quarter—just shy of the historical peak of 33.9% reached in 1990. The more challenging affordability conditions clearly contributed to the slowdown in activity. But so has declining supply. New listings were recently running 33% below year-ago levels. The end result: sustained market tightness and minimal price declines.

**RBC Housing Affordability Measures**



Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

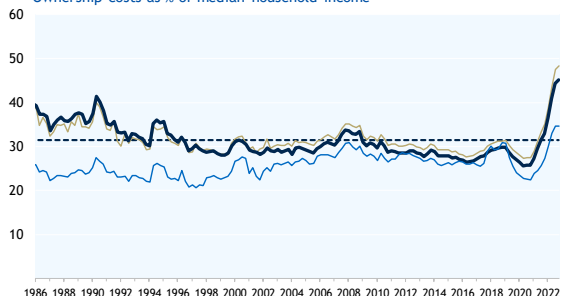


## RBC Housing Affordability Measures

— Single-detached      — Aggregate  
 ..... Aggregate long-term average      — Condo apartment

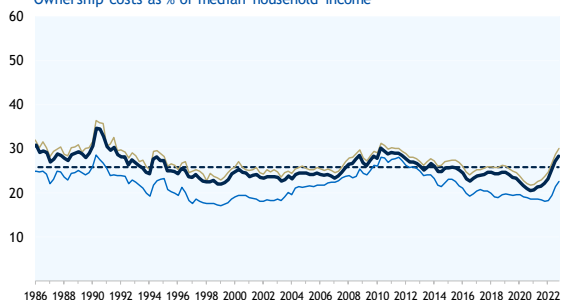
### Halifax

Ownership costs as % of median household income



### St. John's

Ownership costs as % of median household income



### Halifax – Harsher reality sets in

The harsher reality has caught up with the Halifax market. After a highly favourable affordability position attracted a record number of buyers early in the pandemic, soaring ownership costs since then have poured buckets of icy water on demand. Home resales recently slumped to a seven-year low point. The Bank of Canada’s aggressive interest rate hike campaign along with an earlier spike in property values propelled RBC’s aggregate measure 17.8 percentage points since the start of 2021 to an all-time high of 45.1% in the fourth quarter. Benchmark prices peaked last summer and we expect them to trend lower in the period ahead.

### St. John's – Losing some of its luster

The market is proving to be among the most resilient during the downturn, maintaining solid resales momentum and sustaining very limited losses in property values. A run-up in in-migration no doubt has continued to fuel demand. Still, eroding affordability has turned down the market’s dial a few notches since summer. Activity has moderated from historically elevated levels. RBC’s aggregate measure rose 6.2 percentage points in the past year to 28.4% in the fourth quarter—slightly above its long-run average (25.8%). While still the most affordable of the markets we track, St. John’s also has lost some of its luster.

Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics



## How the RBC Housing Affordability Measures work

The RBC Housing Affordability Measures show the proportion of median pre-tax household income that would be required to cover mortgage payments (principal and interest), property taxes, and utilities based on the benchmark market price for single-family detached homes and condo apartments, as well as for an overall aggregate of all housing types in a given market.

The aggregate of all categories includes information on semi-detached, row houses, townhouses and plexes—categories not covered in this report—in addition to single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the housing stock (excluding purpose-built rental buildings).

Mortgage payments are based on a 20% down payment, a 25-year mortgage loan and a five-year fixed mortgage rate. The latter is a weighted average of 5-year fixed rates charged by chartered banks on new insured and uninsured mortgages.

Benchmark prices are sourced from RPS Real Property Solutions.

RBC's affordability measures use household income rather than family income to account for unattached individuals. Pre-tax income doesn't show the effect of various provincial property-tax credits, which could alter relative levels of affordability. Quarterly income is obtained by interpolating annual data. We apply the growth in average weekly earnings to extend the income series to the latest period. The median income represents the value below and above which lays an equal number of observations.

The higher the measure, the less affordable owning a home is. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes would take up 50% of a typical household's pre-tax income at current price and interest rate levels.

## Summary tables

Market	Aggregate of all categories						
	Price			RBC Housing Affordability Measure			
	Q4 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	784,300	-4.2	1.6	62.8	1.4	13.3	40.8
Victoria	1,099,600	-3.2	4.8	74.2	2.7	18.3	44.6
Vancouver area	1,353,200	-4.1	2.7	98.1	2.8	23.0	59.3
Calgary	578,600	-1.5	7.5	43.2	1.5	9.8	38.8
Edmonton	443,900	-1.9	3.1	32.3	1.1	6.3	32.6
Saskatoon	414,000	-0.4	4.6	34.5	2.0	7.6	31.2
Regina	341,900	-3.1	-2.2	29.2	1.0	5.0	26.5
Winnipeg	380,000	-4.3	2.6	33.5	0.3	6.3	28.8
Toronto area	1,176,000	-5.4	-2.0	85.9	1.0	16.7	49.6
Ottawa	689,600	-3.6	2.7	52.7	1.4	11.2	35.6
Montreal area	637,600	-1.1	6.0	54.0	2.5	12.6	37.7
Quebec City	383,000	0.2	7.4	32.4	1.7	7.1	29.1
Saint John	316,200	-0.6	19.4	32.9	3.8	8.4	25.8
Halifax	552,900	-3.7	11.1	45.1	0.8	12.1	31.4
St. John's	350,400	0.4	9.7	28.4	1.2	6.2	25.8

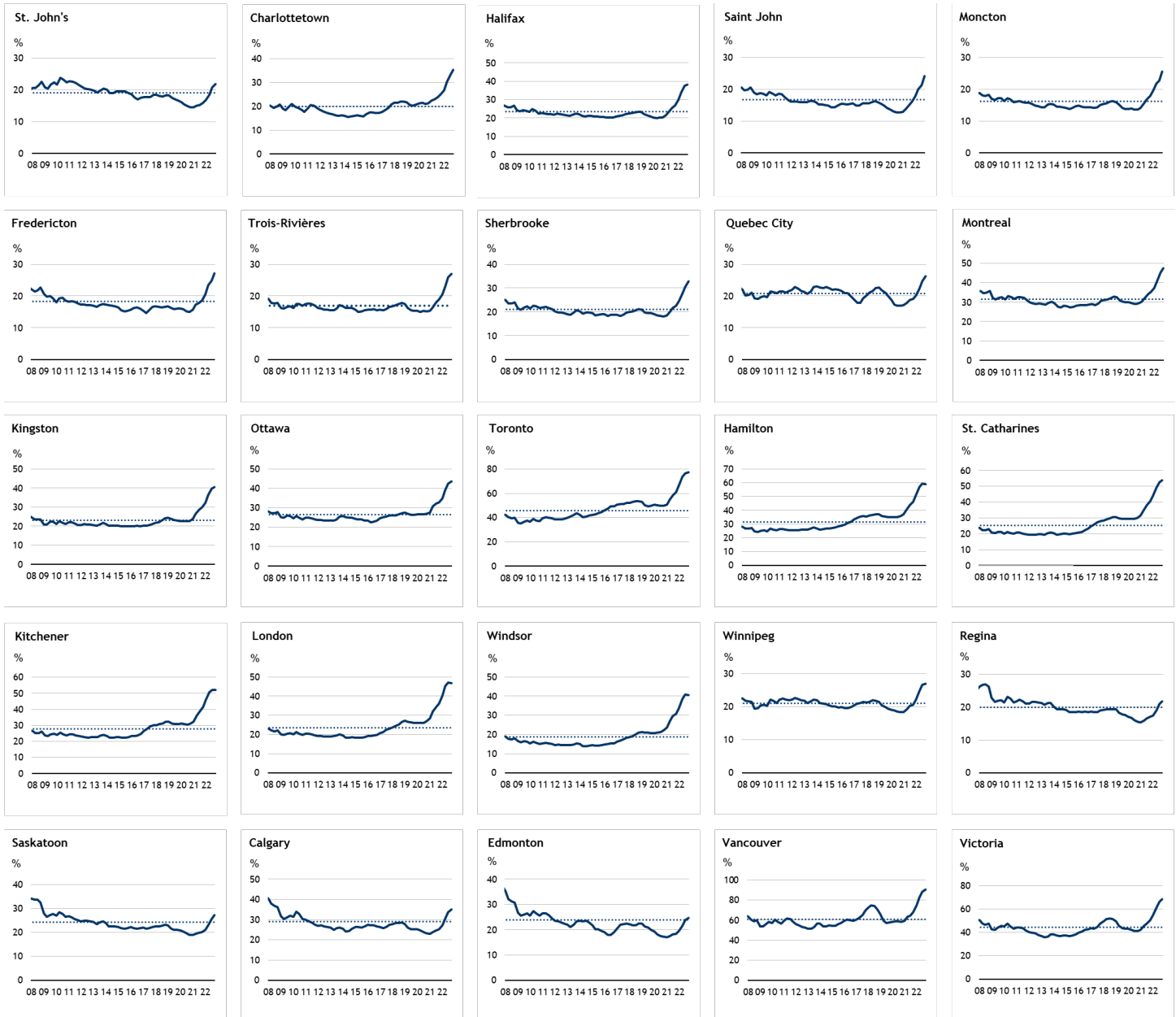
Market	Single-family detached						
	Price			RBC Housing Affordability Measure			
	Q4 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	864,900	-4.1	2.0	69.4	1.6	14.8	43.4
Victoria	1,258,100	-3.1	5.7	84.6	3.1	21.3	48.2
Vancouver area	1,865,400	-4.1	3.0	133.1	3.8	31.9	71.1
Calgary	651,500	-1.2	9.1	48.5	1.9	11.5	41.7
Edmonton	489,300	-0.8	4.6	35.6	1.5	7.2	34.2
Saskatoon	438,300	-1.7	3.9	37.1	1.8	8.0	33.0
Regina	350,600	-3.7	-2.5	30.7	1.0	5.1	27.8
Winnipeg	394,500	-4.4	2.4	35.4	0.3	6.5	30.0
Toronto area	1,439,000	-5.3	-2.0	104.4	1.3	20.4	57.6
Ottawa	765,300	-3.5	3.0	58.9	1.7	12.5	38.5
Montreal area	692,000	-1.5	5.8	58.9	2.5	13.6	38.5
Quebec City	415,000	0.7	9.6	35.5	2.0	8.2	29.8
Saint John	331,300	0.9	21.5	35.2	4.5	9.1	28.2
Halifax	587,700	-3.7	11.9	48.4	0.9	13.2	31.9
St. John's	365,500	0.9	9.1	30.1	1.3	6.4	27.1

Market	Condominium apartment						
	Price			RBC Housing Affordability Measure			
	Q4 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	562,900	-2.2	4.7	45.2	1.7	10.4	32.9
Victoria	674,900	-0.2	9.2	46.7	2.9	12.5	31.6
Vancouver area	761,300	0.0	9.6	57.1	3.8	15.5	39.2
Calgary	273,000	-0.2	4.8	23.2	1.0	4.4	25.3
Edmonton	211,000	-8.3	-9.6	17.8	-0.2	1.8	21.3
Saskatoon	218,100	-2.6	1.3	19.8	0.8	3.8	19.5
Regina	187,900	-8.7	-23.9	17.5	-0.1	0.2	20.3
Winnipeg	246,000	-2.6	5.8	22.3	0.5	4.5	22.2
Toronto area	685,300	-4.2	2.0	51.3	1.2	11.2	31.7
Ottawa	398,900	-1.6	3.6	31.3	1.3	6.7	23.6
Montreal area	464,100	0.2	5.3	39.4	2.2	9.0	31.4
Quebec City	254,800	0.1	2.3	21.6	1.1	4.1	22.2
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	427,800	-5.6	1.3	34.7	0.1	7.4	25.8
St. John's	284,900	2.2	6.1	22.6	1.2	4.6	21.9



## Mortgage carrying costs by city

Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraint in the smaller CMAs. This measure is based on a 20% down payment, a 25-year mortgage loan at a five-year fixed rate, and is estimated on a quarterly basis. The higher the measure, the more difficult it is to afford a home.



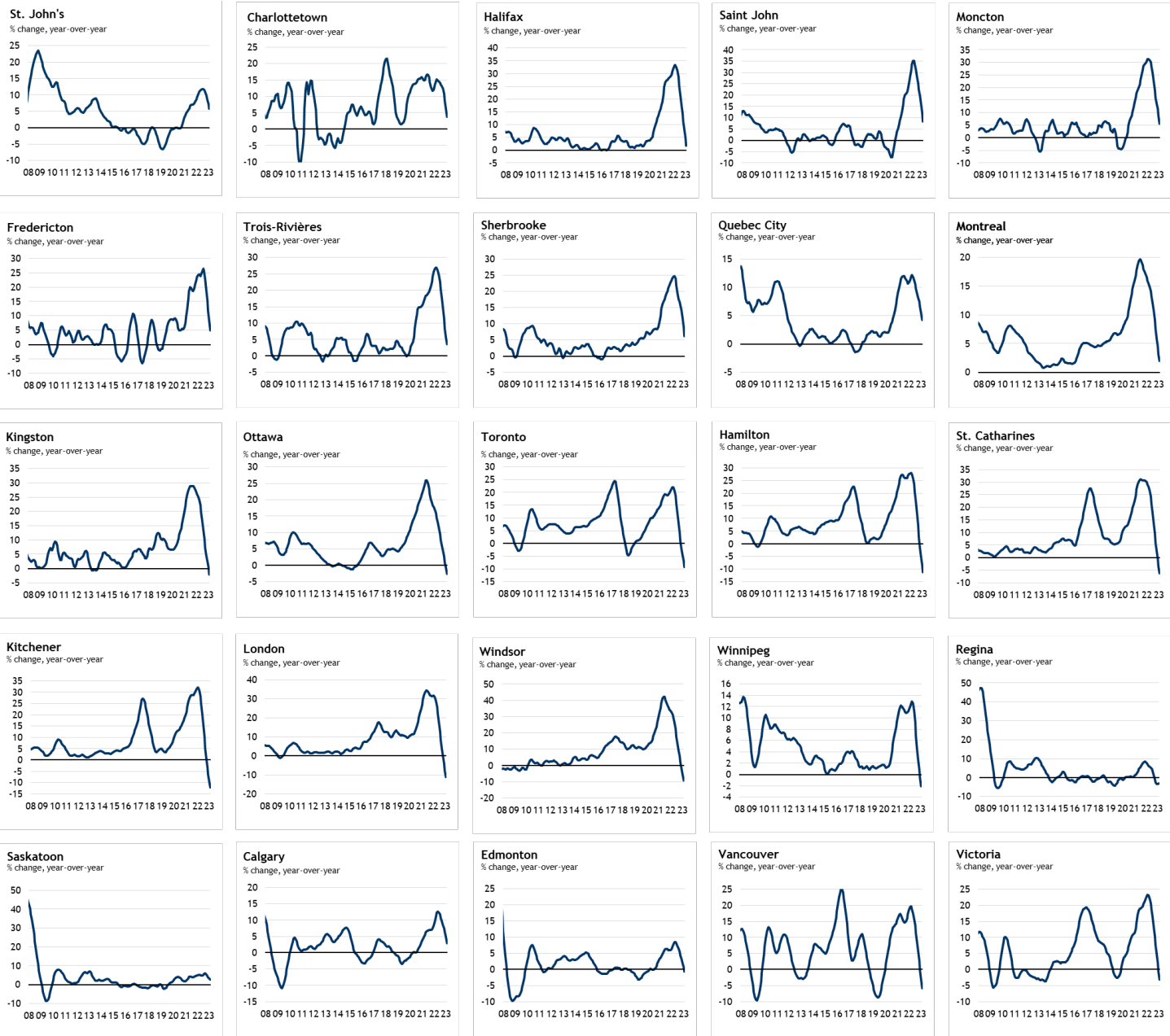
The dashed line represents the long-term average for the market.

Source: RPS, Statistics Canada, Bank of Canada, RBC Economics





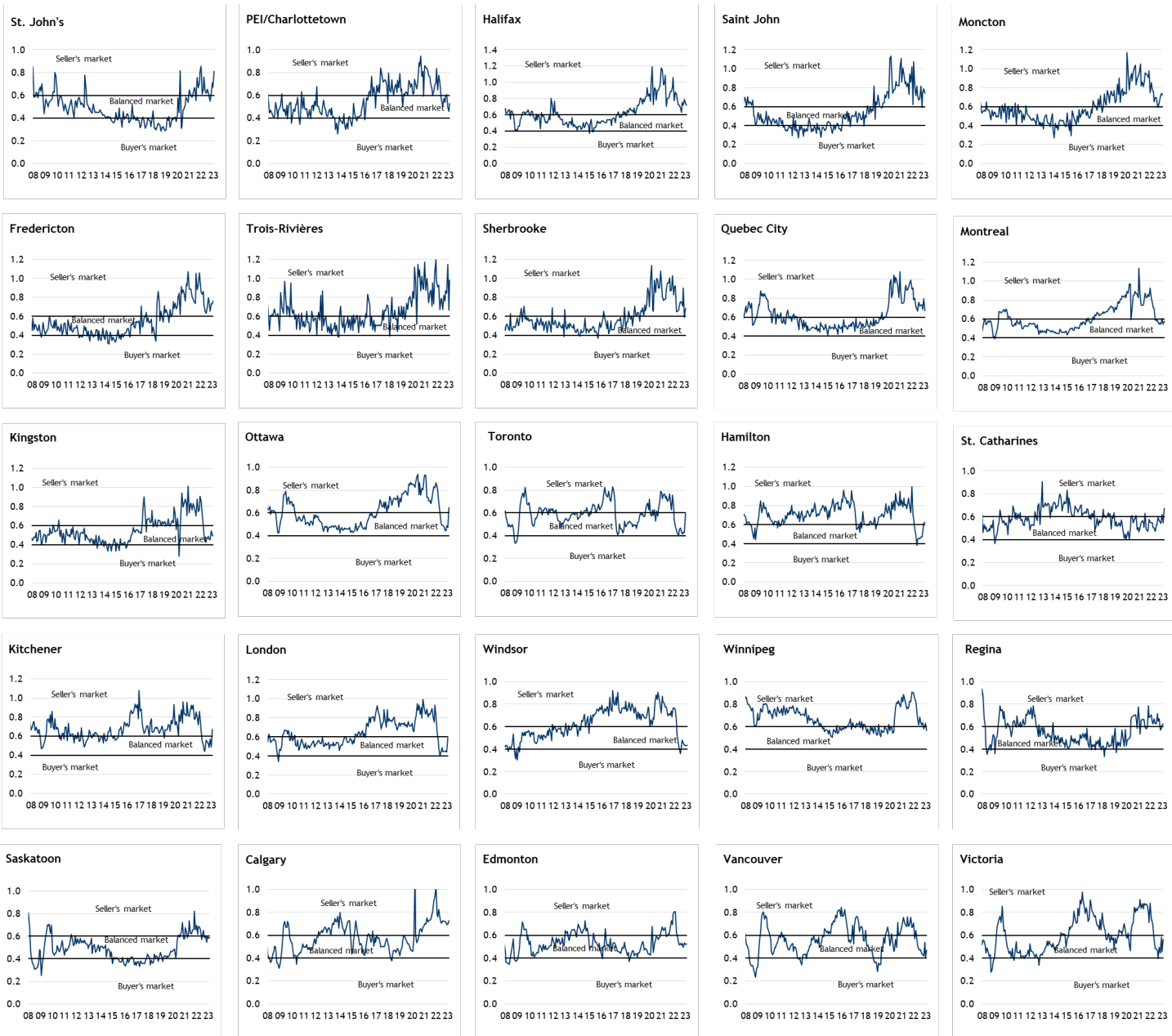
# Aggregate home price



Source: RPS, RBC Economics



# Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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