

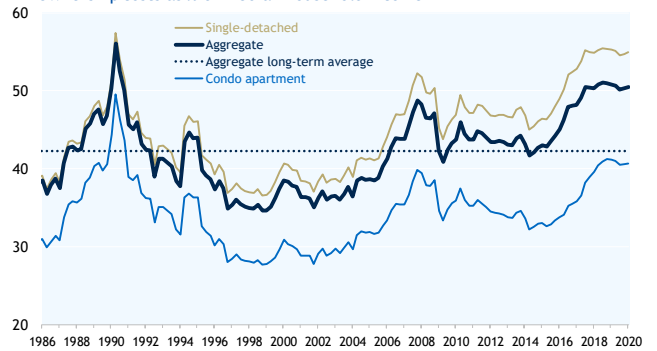
HOUSING TRENDS AND AFFORDABILITY

June 2020

Recent housing affordability loss may prove temporary

- **It was becoming less affordable to own a home when COVID-19 hit:** RBC's national aggregate affordability measure deteriorated (albeit just slightly) for a second-straight time in the first quarter of 2020.
- **Rising housing costs in Ontario were the main culprit:** Rapidly growing demand and tight supply cranked up the heat in markets across the province
- **COVID-19 pummeled housing activity from coast to coast:** Home resales plummeted in March and April but so did supply. Both demand and supply partially recovered in May as the economy began to reopen.
- **Market's road to recovery will be long and bumpy:** High unemployment and slower in-migration will restrain buyers' return to the market. So could affordability issues in Vancouver, Toronto and Victoria.
- **There's scope for housing affordability to improve:** We expect moderately lower home prices and exceptionally low interest rates to reduce home ownership costs in the period ahead. The risk of falling household income once government support programs expire could partly offset gains in affordability, however.

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



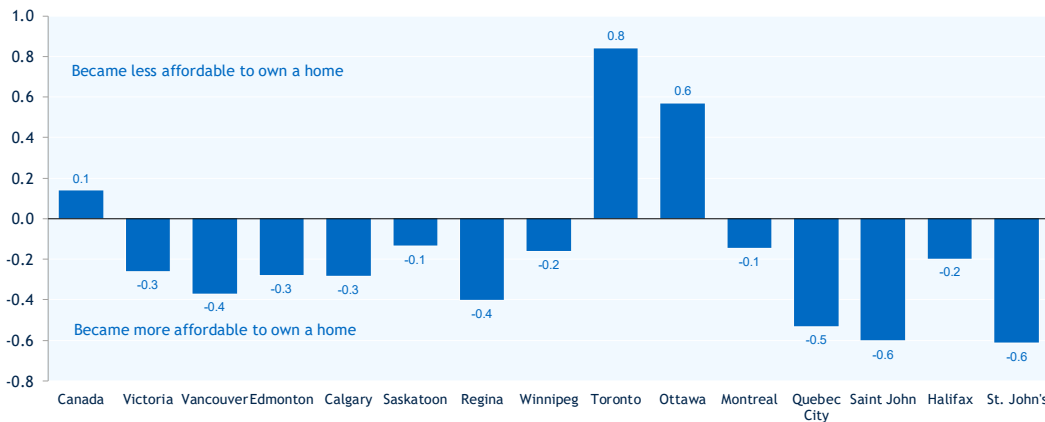
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
50.5	79.0	38.1	31.3	69.0	39.3	43.5

First quarter 2020

First-quarter affordability deterioration was concentrated in Ontario

Change in RBC's aggregate affordability measure between the fourth quarter of 2019 and first quarter of 2020, in percentage points



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

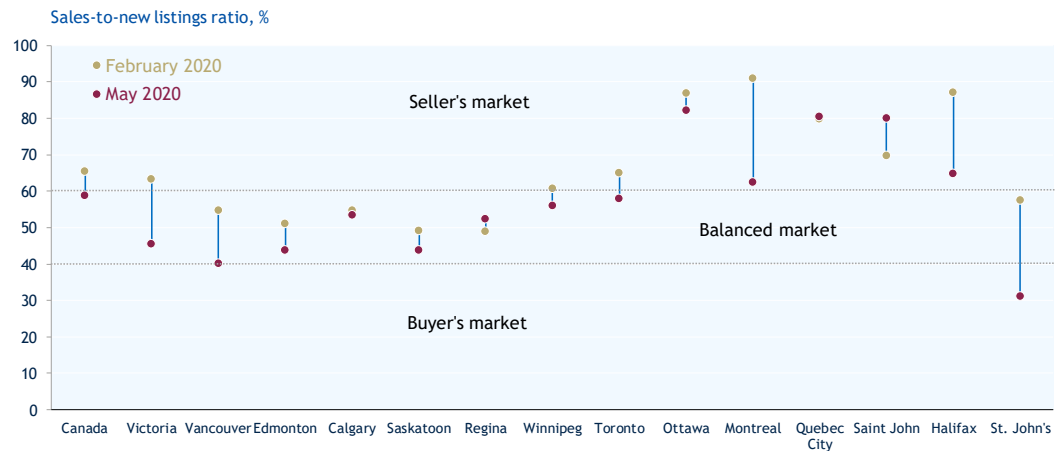
Hot housing market hurt affordability before COVID-19 struck

The cost of owning a home took a slightly larger share of a household's income in Canada in the first quarter of 2020—just as the global pandemic spread to our country. That share for a composite of all housing types (RBC's aggregate affordability measure) inched 0.2 percentage points higher to 50.5%. This was the second-straight increase, marking a turnaround in property values in British Columbia and parts of Ontario. Downturns in these markets



earlier led to a string of modest declines in RBC's national affordability measure from mid-2018 to mid-2019. By the late stages of 2019, however, buyers and sellers had fully adjusted to policy changes made in 2017 and 2018 (including the introduction of a more stringent mortgage stress test). Demand-supply conditions had tightened again. So much so that fears of overheating resurfaced in Ontario this winter.

Almost all local housing markets so far remain balanced or tight despite plunging sales



Affordability improved outside Ontario

Home prices in Ottawa, the Greater Toronto Area and other southern Ontario markets rose at some of the faster rates in the country in the first quarter of 2020. A modest drop in mortgage rates and solid household income gains attenuated the impact on potential homebuyers though it still became less affordable for them to own a home. In fact, Ontario was the only province where affordability deteriorated last quarter. RBC's aggregate affordability measure rose in both Toronto and Ottawa. Lower mortgage rates and rising income more than offset price appreciation in British Columbia, Quebec and most of Atlantic Canada, or amplified the affordability-boosting effect of declining prices in the Prairies. St. John's, Saint John, Quebec City and Regina recorded the most significant improvement in RBC's measure last quarter. Vancouver, Toronto and Victoria continue to be Canada's least affordable housing markets.

Long and bumpy recovery may lead to improvement in affordability

Price trends generally held up since governments declared states of health emergencies mid-March despite home resale activity plummeting 40% to 80%. That's because supply fell in tandem. Demand-supply conditions have been quite resilient in most local markets so far. We expect conditions to loosen more in the coming months as economic hardship causes potential buyers (especially first-time buyers) to delay their purchasing plans, and financially-strained owners (including investors) sell their property once support programs run out. We believe the scale will tip in favour of buyers in many markets across Canada and (benchmark) prices will fall modestly, possibly as early as this summer. This, along with historically low interest rates, will reduce home ownership costs. The degree to which it translates into an improvement in housing affordability will depend on households' ability to maintain their income. While the scope for such is limited near-term, we see the outlook brightening somewhat later this year as the economic recovery further progresses.

Market dynamics to keep an eye on

April was the low point for home resales virtually everywhere in Canada. Activity picked up in May as provincial economies began to reopen, and buyers and sellers became more comfortable transacting under physical distancing rules. We see these factors driving resales further up over the next few months. Then, we expect the market recovery to hit increasing resistance from high unemployment and lower immigration. Any signs of weakening prices could also shake confidence in the market, sending some buyers and sellers back to the sidelines. The path ahead will vary significantly by local market. Oil-producing regions are poised to experience a relatively slower recovery in both their economy and housing market. Growing adoption of work-from-home arrangements could shift some demand from expensive urban markets to more affordable smaller markets. This could potentially be a bigger issue for Vancouver, Toronto and the core of other large urban areas.



British Columbia

Victoria – Long road ahead

Buyers and sellers started to make their way back into Victoria's housing market in May—signalling the beginning of what will likely be a long recovery from the drop in activity in March and April due to COVID-19. Sellers came out in greater numbers than buyers, however, which loosened up demand-supply conditions to some degree. Any further loosening could remove support for prices. Housing affordability continued to improve in the first quarter of 2020. RBC's aggregate measure fell 0.3 percentage points to 57.8%. This is still the third worst among the markets we track.

Vancouver area – High housing costs pushing some toward the exit?

The situation was similar in the Vancouver area in May where sellers made their return to the market felt more strongly than buyers. In part, this may be catch-up for properties previously scheduled to be listed for sale in March and April. But it may also indicate a number of overstretched owners and investors are heading for the exit. Despite coming down over the past two years, the costs of owning a home in Vancouver are a huge load for most households. RBC's aggregate measure for the area continued to be the highest in Canada in the first quarter at 79.0%, declining only slightly by 0.3 percentage points.

Alberta

Calgary – One blow after another

The lifting of some physical distancing restrictions in May got Calgary's housing market going again, albeit at still-depressed levels. May's rebound in sales reversed only one-third of the 65% plunge in the previous two months (though further progress is being made in June). The starting point wasn't exactly strong either. Calgary's market has struggled to recover from the 2014-2016 oil price crash. Property values have trended lower practically ever since. But the boost to affordability but did little to spur confidence. RBC's affordability measure improved further in the first quarter, inching 0.3 percentage points lower to 38.1%. Alberta's severe recession due to COVID-19 and another oil price collapse will make full recovery even more challenging.

Edmonton – Not much to cheer up homebuyers

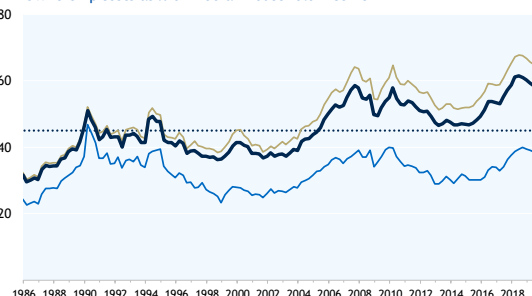
Edmonton's housing market prospects are grim too. Other than a partial pick-up as the economy reopens it's hard to see activity returning anywhere close to normal for some time to come. High unemployment, concerns about the provincial government's fiscal state (the public service makes up a large share of Edmonton's employment base), and declining property values will continue to weigh heavily on homebuyer sentiment. Relatively good affordability, while welcomed, won't turn things around on its own. RBC's affordability measure got slightly better in the first quarter, easing 0.3 percentage points to 31.3%.

RBC Housing Affordability Measures

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

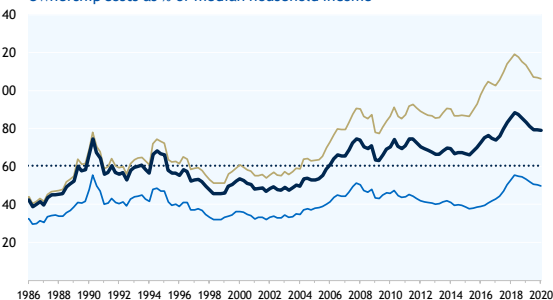
Victoria

Ownership costs as % of median household income



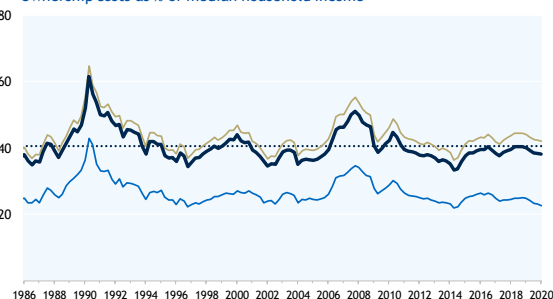
Vancouver Area

Ownership costs as % of median household income



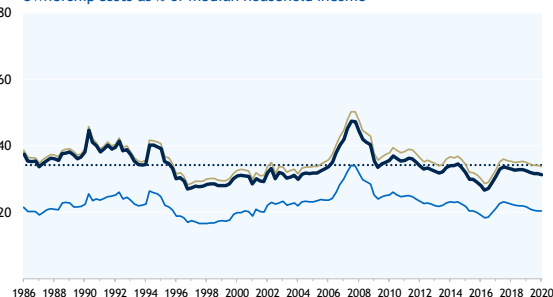
Calgary

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

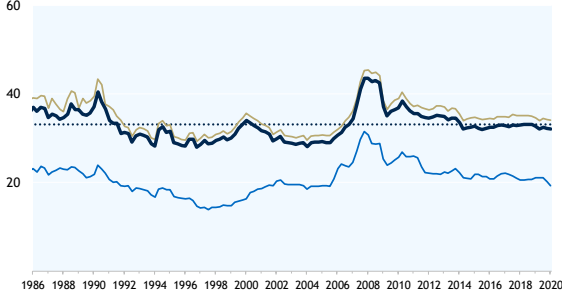


RBC Housing Affordability Measures

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

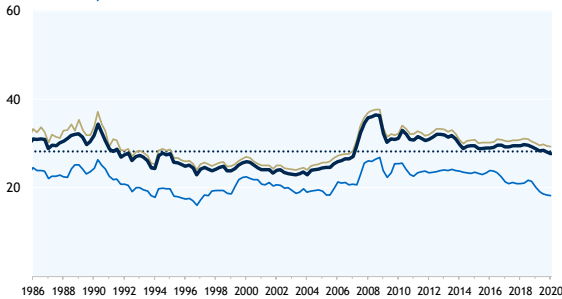
Saskatoon

Ownership costs as % of median household income



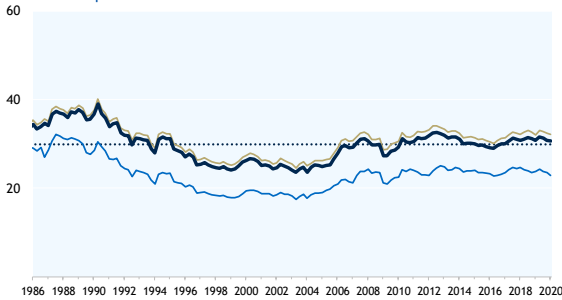
Regina

Ownership costs as % of median household income



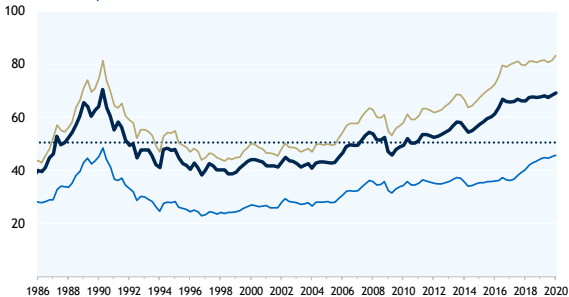
Winnipeg

Ownership costs as % of median household income



Toronto Area

Ownership costs as % of median household income



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

Saskatchewan

Saskatoon – Market responds positively to easing COVID-19 restrictions

With public health authorities reporting earlier success at curbing the pandemic than most other regions of the country, Saskatchewan was one of the first provinces to ease physical distancing orders. This set up a solid—though still partial—housing market rebound in Saskatoon. Home resales in May reversed nearly three-quarters of the 50% drop in March and April. The tough economic reality is likely to cut that rally short, though. Weak labour market conditions will do little to carry housing demand to the next level even as it becomes more affordable to own a home. RBC’s aggregate measure edged lower by 0.1 percentage points in the first quarter to 32.1%, matching a five-year best.

Regina – Solid resales recovery will be hard to sustain

Regina’s market rebound in May was even stronger than in Saskatoon. Resales retraced more than 80% of their fall in the previous two months—the highest proportion among the markets we track. It’s unlikely to get much higher. Regina’s housing market still faces considerable headwinds given its weak economic outlook though ownership costs aren’t really an issue. Affordability is the best it’s been since 2007. RBC’s measure fell for the sixth time in the past seven quarters (down 0.4 percentage points) to 27.7%.

Manitoba

Winnipeg – Market was riding high before COVID-19 struck

Winnipeg is another Prairie market that so far seems to be weathering the COVID-19 storm better than most. Home resales picked up noticeably in May, making up about half the decline in March-April. But that decline came from lofty levels at the start of this year. January-February sales were the strongest ever seen in the area. Affordability isn’t really an impediment for buyers. It continues to be close to historical averages. RBC’s aggregate measure was little changed in the first quarter at 30.7%—only marginally above the long-run average of 29.9%.

Ontario

Toronto area – Sellers keep their grip on the market...for now

The coronavirus delivered the biggest, most sudden shock to ever hit the Toronto-area housing market. But both demand and supply have so far been affected equally. The very tight demand-supply conditions that were present in the opening months of 2020 are still largely in place, maintaining upward pressure on property values. Such pressure contributed to a further deterioration in affordability in the first quarter. RBC’s measure for the area rose 0.8 percentage points to a 30-year high of 69.0%. We expect the recession and lower immigration to loosen demand-supply conditions in the area later this year. This could potentially bring some affordability relief.



RBC Housing Affordability Measures

Ottawa – Still lots of heat left

Ottawa was possibly the hottest market in the country when COVID-19 broke. Home prices were soaring at double-digit rates and still accelerating going into March. Sellers held tremendous pricing power accumulated over the last four years as demand growth consistently outstripped supply. The extraordinary events since mid-March hit activity hard though the market tightness so far has persisted (because sellers also held back supply). This suggests property values will continue to appreciate near term. Prospective buyers waiting for affordability to turn in their favour soon may be disappointed. RBC's measure rose 0.6 percentage points in the first quarter to 39.3%—moving further above the long-run average of 36.1%.

Quebec

Montreal area – Emerging from lockdown better supplied

Quebec was the only province locking down its real estate brokerage and construction industries in March and April as it dealt with the highest number of coronavirus cases in the country. This caused Montreal's housing market to plummet 69% over those two months. The good news is 40% of this decline was made up in May (the provincial government lifted its real estate ban on May 11). We expect further recovery in the coming months. The market is now better supplied (new listings more than tripled between April and May) which should eventually let some steam out of property values. Home prices have risen at a fast clip in the past couple of years. Housing affordability is a bit of a stretch for many buyers though it has been relatively stable lately. RBC's measure was 43.5% in the first quarter, still above its 38.5% long-run average.

Quebec City – Market sprung back in May

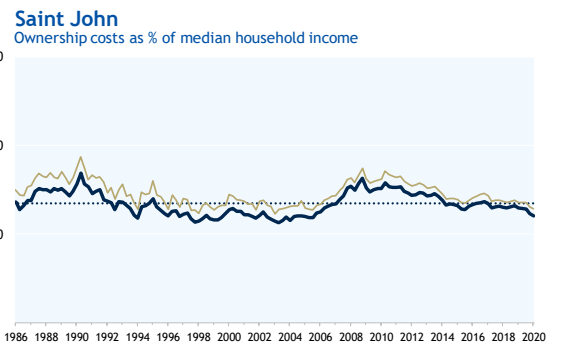
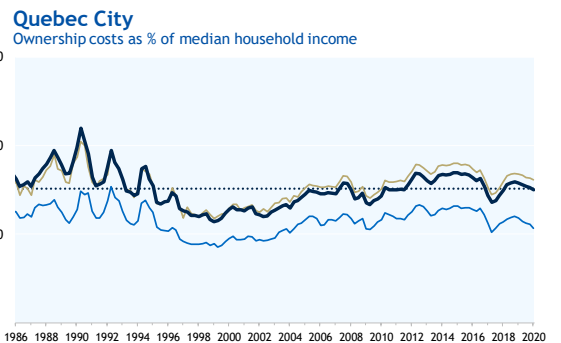
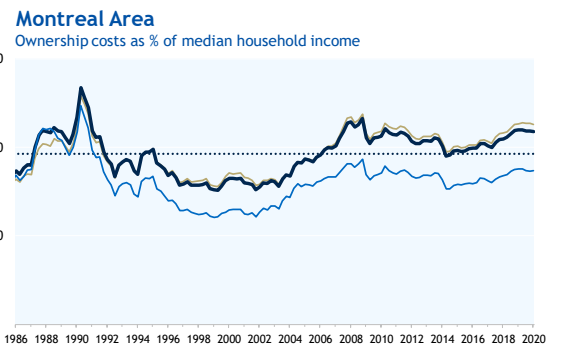
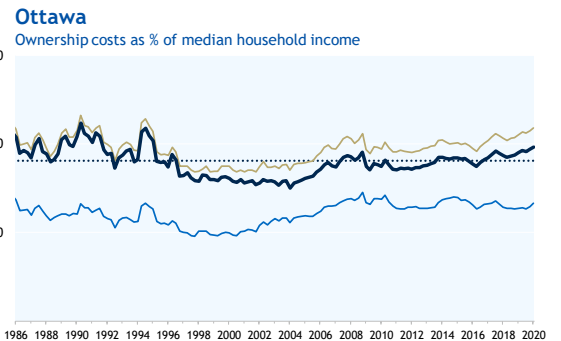
The industry lockdown also hammered Quebec City's market in March and April—home resales plunged almost 80%. Activity quickly resumed in May with the industry's reopening, restoring the tight demand-supply conditions that prevailed pre-pandemic. Housing affordability isn't a cause for concern in Quebec City. RBC's measure (30.0% in the first quarter) is right in line with historical norms.

Atlantic Canada

Saint John – Good affordability should facilitate the market's recovery

Saint John's housing market was the strongest it had been in decades when COVID-19 hit. Home resales in January and February were at their highest levels since late-2004, and demand-supply conditions were extremely tight. Some price softness still lingered but a firming seemed right around the corner. Saint John has long been the most affordable market we track. And it became more so in the past year. RBC's affordability measure fell for five straight quarters to 24.0% in the first quarter—a 15-year best. This positive affordability picture should facilitate the market's recovery as the provincial economy reopens. May's 42% sales jump bodes well in that respect.

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



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

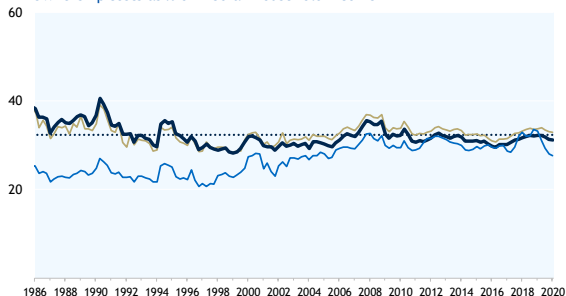


RBC Housing Affordability Measures

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

Halifax

Ownership costs as % of median household income

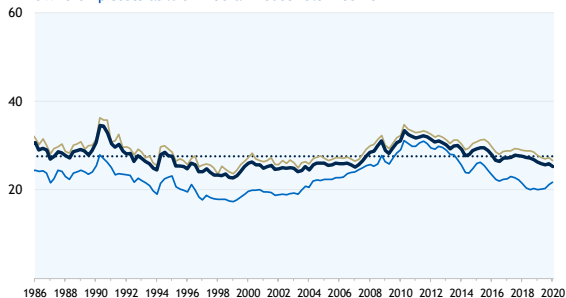


Halifax – Recovery slightly delayed but coming

The Halifax area was slower to recover than other markets in May. Resales rose just 3% from April compared to high double-digit increases seen elsewhere. Low inventories might be partly to blame. Supply was extremely low relative to demand before COVID-19, and many sellers stayed on the sidelines a little longer as physical distancing restrictions began to ease. We expect that to change as more sellers conclude they can get multiple bids for their property. Although low inventories pose challenges for buyers, affordability is still good overall. RBC's aggregate measure (31.1% in the first quarter) remains below its longer-term average (32.3%).

St. John's

Ownership costs as % of median household income



St. John's – Economic slump poses major challenges

The economic backdrop in St. John's took a serious turn for the worse. We expect the one-two punch from the coronavirus pandemic and collapse in global oil prices will cause the provincial economy to contract by nearly 10% this year—ranking as one of the deepest recessions ever recorded by any province. While the initial fall in St. John's housing market (-35% over March and April) didn't exceed declines elsewhere, the recovery phase risks being much more problematic. In fact, there might not be an imminent recovery if further weakening in May is any indication. Affordability won't play a major role in all this even though it's generally favourable. RBC' aggregate measure eased 0.6 percentage points to 25.3% in the first quarter. This extended a downward trend in place since 2010.

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 service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average 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.

Current home prices are sourced from RPS, and established from sales prices from monthly transactions, which are filtered to remove extreme values and other outliers.

The aggregate of all categories includes information on prices for housing styles not covered in this report (semi-detached, row houses, townhouses and plexes) in addition to prices for single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the owned housing stock across Canadian markets.

The affordability measures are based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and are estimated on a quarterly basis for 14 major urban markets in Canada and a national composite. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lays an equal number of observations.)

The RBC Housing Affordability Measure is based on gross household income estimates and, therefore, does not show the effect of various provincial property-tax credits, which could alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a home. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes take up 50% of a typical household's pre-tax income.

Summary tables

Market	Aggregate of all categories						
	Price			RBC Housing Affordability Measure			
	Q1 2020 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	587,300	1.5	5.3	50.5	0.2	-0.3	42.2
Victoria	797,300	1.5	2.7	57.8	-0.3	-2.4	45.1
Vancouver area	1,020,300	1.5	1.4	79.0	-0.3	-4.2	60.5
Calgary	490,100	-0.2	-0.8	38.1	-0.3	-1.9	40.6
Edmonton	395,900	-0.7	-0.3	31.3	-0.3	-1.2	34.2
Saskatoon	371,100	0.1	2.0	32.1	-0.1	-0.6	33.1
Regina	318,200	-1.3	-1.0	27.7	-0.4	-1.1	28.2
Winnipeg	312,500	-0.6	1.5	30.7	-0.1	0.0	29.9
Toronto area	910,300	2.3	8.0	69.0	0.8	1.3	50.5
Ottawa	484,200	2.7	10.2	39.3	0.6	1.3	36.1
Montreal area	455,900	1.4	7.0	43.5	-0.2	-0.4	38.5
Quebec City	303,200	-0.4	1.9	30.0	-0.5	-1.5	30.3
Saint John	211,500	-2.4	-3.3	24.0	-0.6	-1.9	26.9
Halifax	335,800	0.6	3.2	31.1	-0.2	-1.0	32.3
St. John's	289,200	-1.6	-0.8	25.3	-0.6	-0.9	27.5

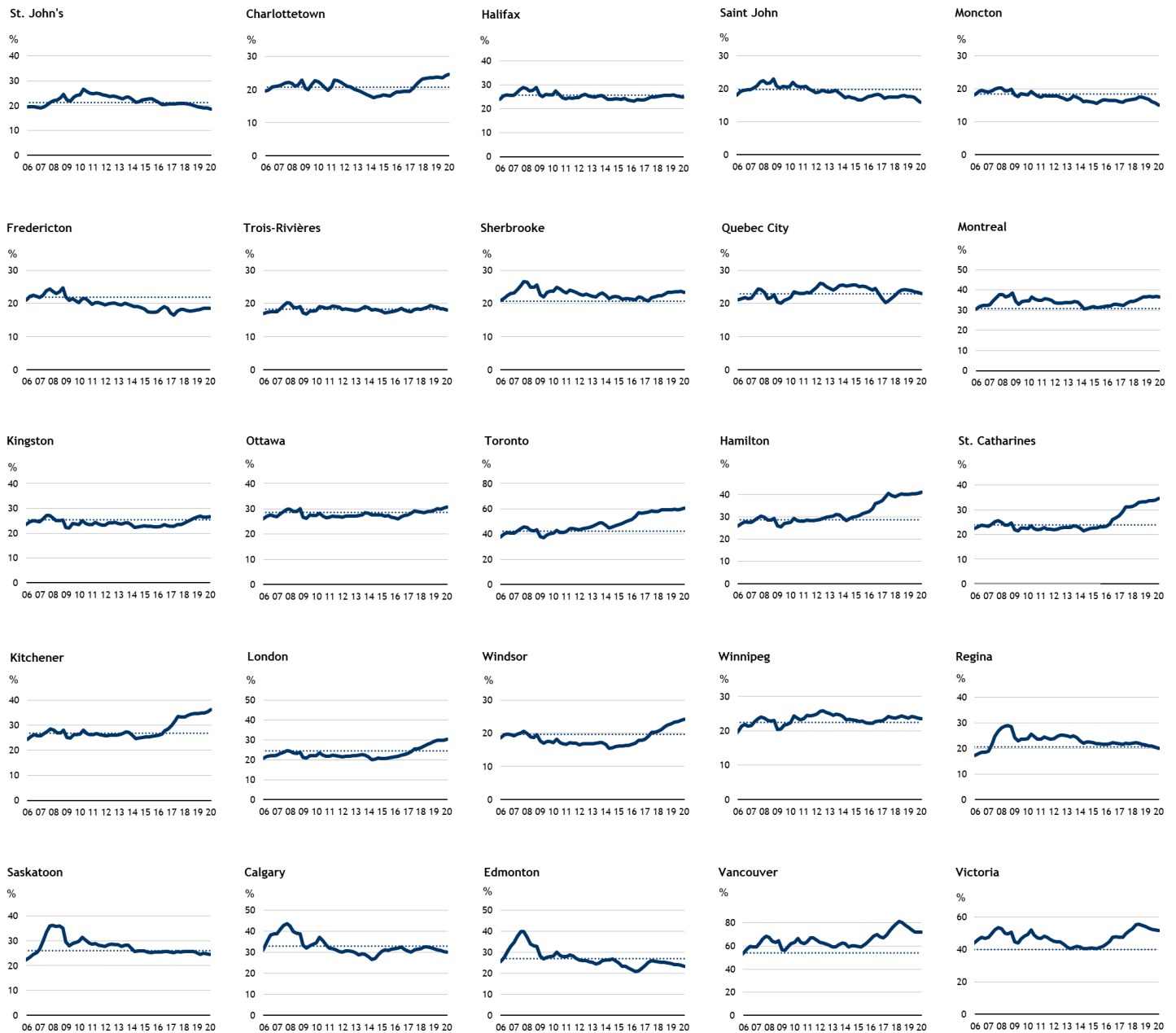
Market	Single-family detached						
	Price			RBC Housing Affordability Measure			
	Q1 2020 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	636,500	1.8	5.5	55.0	0.3	-0.3	44.7
Victoria	890,800	1.4	3.4	64.5	-0.3	-2.3	48.5
Vancouver area	1,399,700	1.6	0.3	106.4	-0.3	-6.9	72.0
Calgary	540,200	-0.4	-0.9	42.0	-0.4	-2.1	43.6
Edmonton	424,300	-0.7	0.0	33.8	-0.3	-1.1	36.0
Saskatoon	386,000	-0.1	2.2	34.0	-0.2	-0.6	35.0
Regina	328,000	-0.4	0.6	29.3	-0.2	-0.8	29.5
Winnipeg	320,300	-0.7	2.0	32.1	-0.2	0.0	31.1
Toronto area	1,104,100	3.1	8.4	83.1	1.6	1.9	58.4
Ottawa	530,900	2.8	10.6	43.6	0.7	1.6	39.1
Montreal area	464,800	1.2	7.8	45.1	-0.3	-0.1	38.7
Quebec City	319,700	0.4	3.5	32.3	-0.3	-1.2	31.0
Saint John	219,100	-1.7	-1.3	25.6	-0.5	-1.5	29.2
Halifax	349,400	1.1	4.3	32.9	-0.1	-0.8	32.7
St. John's	296,400	-1.6	-1.6	26.6	-0.6	-1.1	28.9

Market	Condominium apartment						
	Price			RBC Housing Affordability Measure			
	Q1 2020 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	480,700	1.4	4.7	40.7	0.1	-0.5	34.2
Victoria	488,700	-1.1	-1.3	36.6	-1.0	-2.9	32.2
Vancouver area	624,200	0.5	-0.8	49.8	-0.6	-3.6	40.6
Calgary	262,300	-2.3	-7.3	22.6	-0.5	-2.2	26.7
Edmonton	237,900	-0.3	-4.1	20.3	-0.1	-1.3	22.4
Saskatoon	207,200	-5.3	-7.4	19.3	-0.9	-1.8	20.9
Regina	199,000	-1.0	-9.1	18.2	-0.2	-1.9	21.6
Winnipeg	232,600	-3.8	-3.6	22.8	-0.7	-1.0	23.2
Toronto area	594,500	2.3	9.6	45.6	0.5	1.4	32.5
Ottawa	328,500	4.1	11.5	26.5	0.6	1.1	24.4
Montreal area	367,900	1.9	6.4	34.6	0.0	-0.5	32.5
Quebec City	219,800	-3.2	-4.9	21.3	-0.9	-2.3	23.1
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	310,100	-0.1	-13.8	27.6	-0.4	-5.6	26.8
St. John's	260,200	4.6	16.1	21.7	0.5	1.7	23.0



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 25% 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 house.



The dashed line represents the long-term average for the market.
 Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics



Aggregate home price

St. John's
% change, year-over-year



Charlottetown
% change, year-over-year



Halifax
% change, year-over-year



Saint John
% change, year-over-year



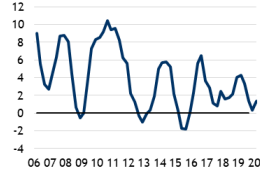
Moncton
% change, year-over-year



Fredericton
% change, year-over-year



Trois-Rivières
% change, year-over-year



Sherbrooke
% change, year-over-year



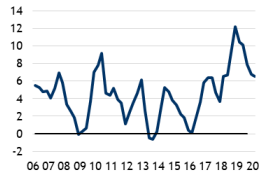
Quebec City
% change, year-over-year



Montreal
% change, year-over-year



Kingston
% change, year-over-year



Ottawa
% change, year-over-year



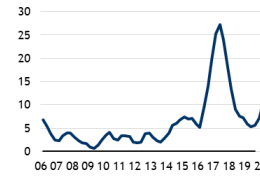
Toronto
% change, year-over-year



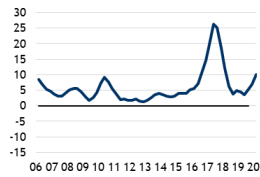
Hamilton
% change, year-over-year



St. Catharines
% change, year-over-year



Kitchener
% change, year-over-year



London
% change, year-over-year



Windsor
% change, year-over-year



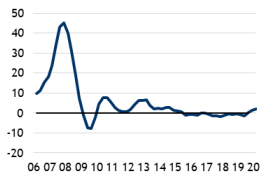
Winnipeg
% change, year-over-year



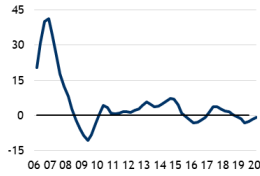
Regina
% change, year-over-year



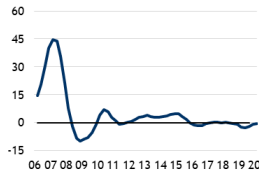
Saskatoon
% change, year-over-year



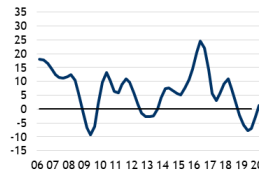
Calgary
% change, year-over-year



Edmonton
% change, year-over-year



Vancouver
% change, year-over-year



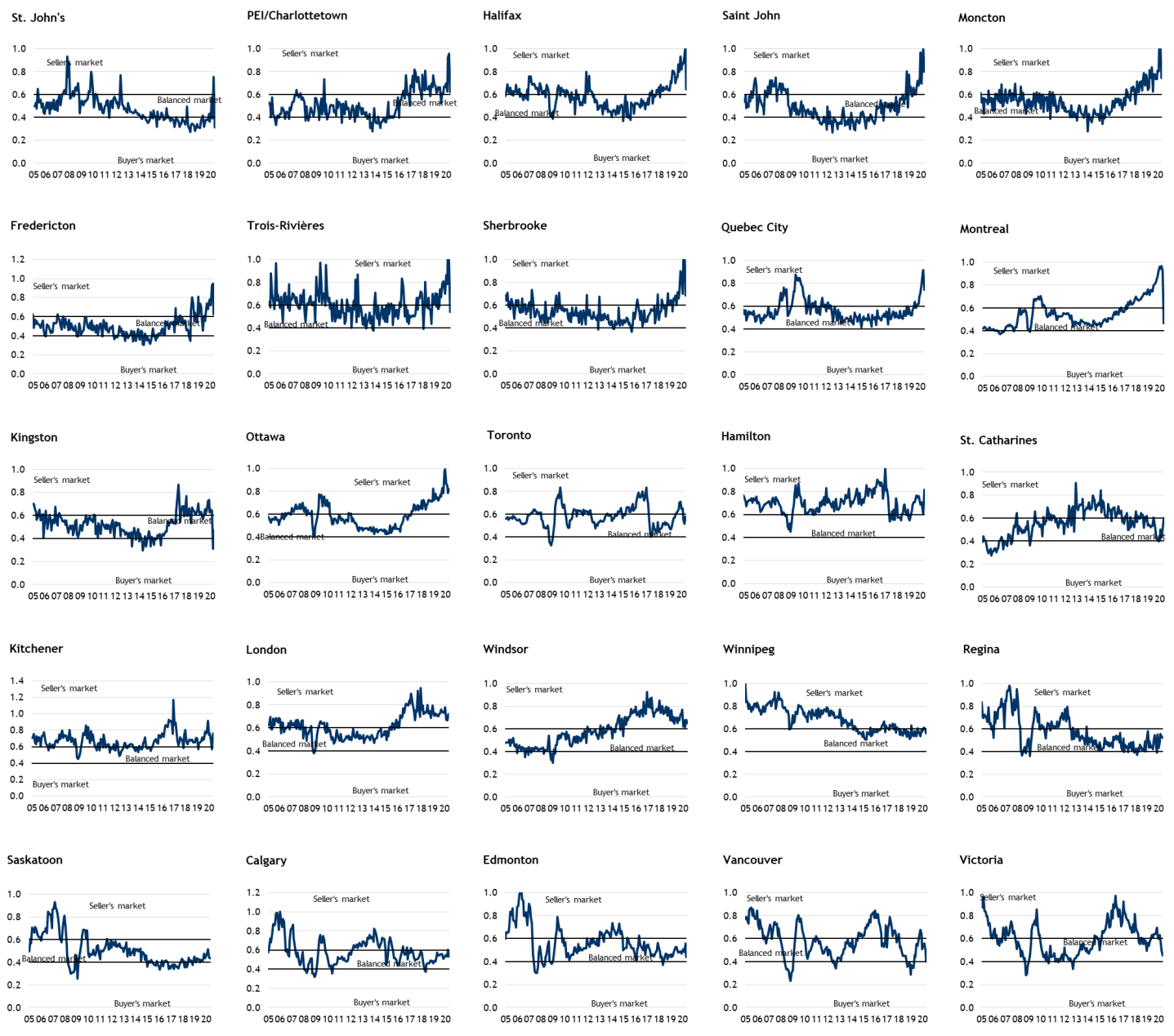
Victoria
% change, year-over-year



Source: RPS, RBC Economics



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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